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SESSION 1934
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

FRIDAY, MAY 25, 1934
THURSDAY, MAY 31, 1934
WEDNESDAY, JUNE 6, 1934

WITNESSES:

- Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.
Mr. J. E. Labelle, Trustee, Canadian National Railways.
Mr. S. J. Hungerford, President, Canadian National Railways.
Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals.
Mr. S. W. Fairweather, Canadian National Railways.
Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance.

MEMBERS OF THE COMMITTEE.

Hon. J. D. CHAPLIN, *Chairman*

and Messrs:

Beaubien,
Beaubier,
Bell (*St. Antoine*),
Bothwell,
Cantley,
Chaplin,
Duff,
Euler,
Fiset (*Sir Eugene*),
Fraser (*Cariboo*),
Geary,

Gray,
Gobeil,
Hanbury,
Heaps,
Kennedy (*Peace River*),
McGibbon,
MacMillan (*Saskatoon*),
Manion,
Power,
Price,
Stewart (*Lethbridge*).

J. P. DOYLE,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, May 4, 1934.

Resolved,—That Standing Order 63 of the House of Commons, relative to the appointment of Select Standing Committees of the House be amended by adding to the select standing committees of the House for the present Session a Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government to which will be referred the accounts and the estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present Session, for consideration and report to the House, provided, however, that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply, and that said committee consist of Messrs. Beaubien, Beaubier, Bell (*St. Antoine*), Bothwell, Cantley, Chaplin, Duff, Euler, Fiset (Sir Eugene), Fraser (*Cariboo*), Geary, Gray, Gobeil, Hanbury, Heaps, Kennedy (*Peace River*), McGibbon MacMillan (*Saskatoon*), Manion, Power, Price and Stewart (*Lethbridge*).

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House,

HOUSE OF COMMONS,

TUESDAY, February 6, 1934.

Resolved,—That the Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, April 27, 1934.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 71, An Act respecting the Canadian National Railways and to authorize the provision of money to meet expenditures made and indebtedness incurred during the calendar year 1934, and to provide for the refunding of certain maturing financial obligations.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, June 1, 1934.

Ordered,—That the Estimates respecting the Canadian National Steamships and the Maritime Freight Rates Act, presented to the House on the 27th April, be referred to the Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, and that the Order referring the same to the Committee of Supply be discharged.

Attest.

THOS. M. FRASER,
Asst. Clerk of the House.

Ordered,—That the said Committee be given leave to print 500 copies in the English language and 200 copies in the French language of its day to day proceedings and evidence which may be taken, for the use of the Committee and for Members of the House of Commons and the Senate; and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, June 7, 1934.

Ordered,—That the said Committee be granted leave to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

FIRST REPORT

June 4, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

FIRST REPORT

Your Committee, in accordance with Order of Reference dated April 27, 1934, has considered Bill No. 71, an Act respecting the Canadian National Railways, and has agreed to report the said Bill with an amendment.

All of which is respectfully submitted.

J. D. CHAPLIN,
Chairman.

SECOND REPORT

June 6, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

SECOND REPORT

Your Committee, in accordance with Order of Reference dated June 1, 1934, has considered the Estimates respecting the Canadian National Steamships and the Maritime Freight Rates Act, being Votes Nos. 282, 283, 284 and 285, and has agreed to report said Estimates without amendment.

All of which is respectfully submitted.

J. D. CHAPLIN,
Chairman.

THIRD REPORT

June 6, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

THIRD REPORT

Your Committee recommends that it be granted leave to print 500 copies in the English language and 200 copies in the French language of its day to day proceedings and evidence which may be taken, for the use of the Committee and for members of the House of Commons and the Senate; and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

J. D. CHAPLIN,
Chairman.

FOURTH REPORT

June 7, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

FOURTH REPORT

Your Committee recommends that it be granted leave to sit while the House is sitting.

All of which is respectfully submitted.

J. D. CHAPLIN,
Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, May 25th, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met this day at 10.45 o'clock, a.m., in accordance with notice issued.

The following members were present: Messieurs: Beaubier, Cantley, Chaplin, Euler, Fiset (Sir Eugene), Fraser (*Cariboo*), Gobeil, Heaps, MacMillan (*Saskatoon*), Manion, Price and Stewart (*Lethbridge*).—12.

Nominations for Chairman were asked for. Mr. Heaps moved, seconded by Mr. Beaubier, that Mr. Chaplin be Chairman. Motion agreed to.

Sir Eugene Fiset moved, seconded by Mr. Gobeil, that the three Canadian National Railway Trustees be called for Wednesday and Thursday, May 30th and 31st. Motion carried.

Moved by Mr. Price, seconded by Mr. Heaps, that Mr. Hungerford and Mr. Fairweather be called for Wednesday and Thursday, May 30th and 31st. Motion carried.

Sir Eugene Fiset requested that copies of Orders in Council appointing the three Canadian National Railway Trustees be produced.

Mr. Price moved, seconded by Mr. Heaps, that twenty-five copies of the Annual Report of the Canadian National Railways and the Canadian Government Merchant Marine be supplied for the use of the Committee. Motion carried.

Sir Eugene Fiset requested that information be supplied regarding the method of procedure followed in closing a railway station.

The Committee adjourned until Wednesday, May 30th, at 11 o'clock, a.m.

J. P. DOYLE,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

Room 268,

May 31st, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, in accordance with notice issued, met this day at 11 o'clock, Mr. Chaplin, the Chairman, presiding.

The following members were present: Messieurs: Beaubien, Bell (*St. Antoine*), Bothwell, Cantley, Chaplin, Euler, Fiset (*Sir Eugene*), Fraser (*Cariboo*), Gray, Gobeil, Hanbury, Heaps, Manion, Price and Stewart (*Lethbridge*).—15.

In attendance were: Hon. C. P. Fullerton, K.C., Mr. F. K. Morrow, Mr. J. E. Labelle, K.C., Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Canadian National Railways; Mr. V. I. Smart, Deputy Minister of Railways and Canals.

The Chairman announced that copies of Orders in Council appointing the Trustees of the Canadian National Railways, and copies of the Annual Reports of the Canadian National Railways and the Canadian Government Merchant Marine had been distributed to members of the Committee as requested at the last meeting.

The Committee then proceeded to consider Bill No. 71, an Act respecting the Canadian National Railways and to authorize the provision of moneys to meet expenditures made and indebtedness incurred during the calendar year 1934, and to provide for the refunding of certain maturing financial obligations.

Clause I—Carried.

Clause II—Carried.

Clause III—Carried.

Clause IV—Mr. Cantley moved, seconded by Mr. Price, that Clause IV be amended by inserting after the word "deficits" in the seventh line of Section 4, the following:—

Including such supplementary contributions to The Intercolonial and Prince Edward Island Railways Employees' Provident Fund as may be necessary to provide for payment in full of monthly allowances under the provisions of The Intercolonial and Prince Edward Island Railways Employees' Provident Fund Act, notwithstanding the limitation contained in Section 4 of the said Act, and

Clause IV as amended—Carried.

Clause V —Carried.

Clause VI —Carried.

Clause VII —Carried.

Clause VIII —Carried.

Clause IX —Carried.

Clause X —Carried.

Clause XI —Carried.

Clause XII —Carried.

Schedules —Carried.

Title —Carried.

It was agreed to report the Bill as amended.

Discussion took place regarding co-operation between the roads as to pooling, etc. It was pointed out that a statement to Parliament must be made under the Act of last year. See Clause 14. The Officers were requested to make a statement *re* pooling. Mr. Fairweather briefly explained the pooling arrangements. He also gave the number of men displaced by pooling and the number of men taken back on account of improved business.

Men employed by Canadian National Railways in 1929, 111,000; 1933, 70,000; 1934, 76,000.

Interest charges on the funded debt of the Canadian National Railways were given as follows: 1929, \$45,503; 1930, \$51,306; 1931, \$55,587; 1932, \$56,965; 1933, \$56,065, the average interest rate being about $4\frac{1}{2}$ per cent.

Mr. Fairweather stated the policy of the Canadian National Railways was to hold their traffic as long as possible before turning it over to any other railroad, and whenever possible turned it over to a Canadian road. It was stated that the Canadian Pacific turned over their Chicago traffic to the Michigan Central Railway when it could have been carried by the Canadian National.

In reply to a question by Sir Eugene Fiset, Mr. Hungerford stated that before making application to the Board of Railway Commissioners for permission to abandon a railway line or close a railway station, notice of such application was always sent to the municipality affected.

It was suggested that at the next meeting the Chairman of the Board of Trustees be requested to make a statement regarding the writing down of the capital stock as suggested by the auditors.

The Committee adjourned until Wednesday, June 6th, at 11 o'clock, a.m.

J. P. DOYLE,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

Room 231,

June 6, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, in accordance with notice issued, met this day at 11 o'clock, a.m., Mr. Chaplin, the Chairman, presiding. The following members were present:—

Messieurs Beaubier, Cantley, Chaplin, Euler, Fraser (*Cariboo*), Geary, Gray, Gobeil, Hanbury, McGibbon, Manion, Price, and Stewart (*Lethbridge*)—13.

In attendance were: Hon. C. P. Fullerton, K.C., Mr. F. K. Morrow, Mr. J. E. Labelle, K.C., Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance.

The estimates respecting the Canadian National Steamships and the Maritime Freight Rates Act, being Votes No. 282, 283, 284, and 285, submitted to the Committee by Order of Reference, dated June 1, 1934, were considered and adopted.

The Chairman announced that all the formal matters referred to the Committee had been considered, and requested that members desiring information should now place their requests before the Committee. He then called on the Hon. C. P. Fullerton, to make a statement.

Mr. Gray called attention to the fact that the proceedings of the Committee were not being reported or printed, and after discussion he moved, seconded by Mr. McGibbon, "that the Committee recommend that it be granted leave to have its day to day proceedings printed; that Standing Order 64 be suspended in relation thereto, and that 500 copies in English and 200 copies in French be printed for the use of members of the Committee and the House of Commons.—Motion carried.

Mr. Fullerton then proceeded with his statement.

Mr. Fraser (*Cariboo*), asked that the Canadian National Railways officials at the next meeting present a statement showing a comparison of the salaries and expenses of the executive officers in 1931 and the present year.

The Committee adjourned until Thursday, June 7, 1934, at 11 o'clock, a.m.

J. P. DOYLE,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 231,

WEDNESDAY, June 6, 1934.

The select standing committee on Railways and Shipping met at 11 o'clock, Mr. Chaplin, the chairman, presiding.

The CHAIRMAN: Order, gentlemen. Mr. Fullerton, the chairman of the Canadian National Railways has a statement which he desires to present to the members of this committee. Proceed Mr. Fullerton.

STATEMENT OF HON. C. P. FULLERTON, CHAIRMAN CANADIAN NATIONAL RAILWAYS

To the Chairman and Members of the Select Standing Committee on Railways and Shipping:

At the meeting of the Committee on Thursday last, I was asked for an expression of opinion as to the future prospects of the Canadian National Railways and for my views on co-operation with the Canadian Pacific Railway.

Let me say at the outset I am not one of those who believe that the Canadian National Railways is a hopeless proposition. I am impressed with the potential earning power of the property. The net earning power is at the present time obscured by the depression and by the unwieldy capital structure. It is likewise true there are unnecessary duplicate lines, both within the Canadian National System and as between that System and the Canadian Pacific; also there are portions of the System which are now unprofitable and which can never be otherwise. Broadly speaking, however, the System is well located to serve the industrial east; its lines in Northern Quebec and Ontario have shown a surprising degree of development in lumbering, pulp and paper, mining, and through the clay belt in agricultural development, and its lines in the prairie provinces are fortunately located.

To be a defeatist with regard to the potential earning power of such a property is to be a defeatist with regard to the future of Canada. What is called for at the present time is a policy of rigid economy and of careful administration, and this the Board of Trustees and the Management intend to give to the best of their ability.

The fundamental factor in the problem of Canadian National Railways is one of gross revenues. In 1933 our gross revenue was 148 million dollars, the lowest in the history of the System since the completion of its constituent parts. In 1928 the revenues of the System were 312 million dollars, so that 1933 is below the level of that peak year by 164 millions, well over 50 per cent. The revenues for 1933 were more than 107 million dollars less than the average of the previous ten years, a decrease of 42 per cent. This terrific shrinkage of \$2,000,000 per week in the business handled by the Railway is the major cause of our present difficulties, and until we obtain a substantial increase in business the problem will remain a problem.

The low level of business transacted, of course, is not peculiar to the Canadian National Railways. The Canadian Pacific is experiencing similar difficulties. In 1933 our revenues decreased 7.81 per cent compared with the

previous year. The C.P.R. revenue decrease was 7·80 per cent. Compared with the peak year of 1928 our revenues decreased 15·44 per cent. On the Canadian Pacific the decrease was 52·78 per cent. Taking Class 1 Roads of the United States, 1933 in comparison with 1928, their revenues decreased 49·89 per cent.

The measures which are open to us to secure a substantial increase in our gross revenues are limited. We ourselves can do little to expand the trade and commerce of the country, either domestic or external. Our efforts may affect the distribution between the various transportation agencies of the total volume of business to be handled, but we cannot by taking thought add to the sum total thereof. I do not think I need to labour this point, it is obvious to us all. It is gratifying to see that the present trend is definitely upwards. Our revenues for the first five months of the current year show an increase of \$11,630,000 over last year, an increase of about 21 per cent. You ask me what are the possibilities of Canadian National operations during the next four or five years. This I cannot say. I prefer not to make any forecast regarding the future. It will depend to a very great extent indeed upon general business conditions, over which we have no control. It is not unreasonable, however, to expect a gradual return to a more normal level of business. If we could say that the normal level can be measured by the average experience of the ten years 1923 to 1932, then the revenues of the National Railways will be increased by a hundred million dollars over the 1933 level, and if this is accomplished the National Railways will be within measurable distance of meeting its fixed charges on the Funded Debt of the System held by the public.

It is our definite policy to seek out every possible means to economy consistent with safe operation and reasonable service to the public. With a return of normal conditions we shall continue this policy. Even if there is a return to prosperity we shall still continue this policy. We are fixed in our determination that at all times and under all conditions we must be economical in our expenditures. A saving of every one per cent in Operating Expenses means a saving of one and a half million of dollars, even on the 1933 level of expenditures.

Every departmental head has undertaken a close survey of his department to see what can be done to secure increased efficiency and greater economy.

In every direction our officials are at work to see that every item of unnecessary expense is discontinued.

Unfortunately economies cannot be made without displacing labour. Out of every dollar spent in operating the Railway, 63 cents is a direct payroll expense. Whilst, therefore, to secure economies labour is necessarily displaced, our greatest desire is to see the men returning to work in the essential services. In this respect it is gratifying to note that the first three months of the year, compared with the previous year, the number of employees at work has increased by 6,463.

Apart from revenues and expenses the other major item in our problem is the annual interest on the Funded Debt in the hands of the public. In 1923 the amount was 35½ millions; in 1928, 42 millions; in 1932 the peak was reached at \$56,965,000. This might be classed as an uncontrollable item. There is not very much the Trustees can do about it. It was here when we entered office.

Under the policy which has been in effect since 1932 there has been a gradual reduction in the total interest charges payable to the public, and opportunities will arise of refunding existing issues at a lower rate of interest. For example, there are two issues of 7 per cent Dominion Guaranteed Sinking Fund Debenture Bonds callable in 1935, which if refunded on a 4½ per cent basis would save \$900,000 per annum. In this connection I may mention it is costing us over 2 millions dollars a year for exchange on amounts required to pay interest in United States and Sterling funds. This will be saved if and when Canadian currency can be stabilized on a parity with such funds.

Now as to the progress made in co-operation between the two railways, I mentioned the other day that there were under study by the Joint Co-operative Committee of the two railways a number of proposals for line abandonments. Some of these proposals involve the elimination of apparently unnecessary rail mileage by the abandonment of one company's line and the joint use of the other's, where the lines of both companies are generally parallel and perform similar functions. Studies are in various stages upon thirty-six projects involving proposals for the abandonment of approximately 2,100 miles.

Apart altogether from the question of co-operative action between the two railways in regard to the abandonment of competitive lines, a committee of the Canadian National Railways has actively in hand the study of proposals for the abandonment of approximately 1,150 miles of light traffic non-competitive Canadian National lines in various sections of the country.

As I pointed out to you the other day, a program for the abandonment of lines is surrounded by all kinds of complications and difficulties. If it were possible merely to make a survey of traffic returns on certain lines of railway and ruthlessly cut off such lines as were unprofitable, then undoubtedly large savings could be made. This, of course, cannot be done. The interest of those who have settled along the lines and are solely dependent on them for transportation has to be considered. Before any line can be abandoned permission must be obtained from the Board of Railway Commissioners.

Co-operative measures which have been put into effect up to date are yielding \$1,260,000 yearly joint economy. They comprise passenger train pooling Montreal-Quebec, Montreal-Toronto and Toronto-Ottawa, joint car cleaning staffs at Quebec and St. John, a joint station at Gladstone, Manitoba, provision for joint switching at Portage la Prairie, an arrangement to haul each for the other, grain cars between Calgary, Edmonton and Kamloops to save distance, an arrangement to handle Canadian National traffic in Canadian Pacific trains between Fredericton and Vanceboro and an interchange of freight traffic at Sherbrooke instead of Lennoxville.

Many other co-operative projects are being studied, including extension of the pooling of competitive train services, joint terminal operations, joint stations, joint up-town and off-line passenger agencies and the unification of the telegraph and express facilities.

I am also asked for my comments on the recommendations made by Messrs. Geo. A. Touche & Company, Government Auditors, for adjustment of the capital structure of the Canadian National Railways. Since taking office I have given this matter careful consideration. The proposals are not intended as a cure for all the ills of the National System, but represent only a correction in the relations between the Railway and the Government, and make no changes whatever as between the Railway and its debt to the public.

I believe there is a great deal of misunderstanding in this matter. On the one hand the railway is deemed to be a business enterprise subject to comparison with its competitor, expected to produce a return on the capital invested and condemned in certain quarters because it does not fully do so. On the other hand, it is expected to function as an agency of government opening up for development in a pioneer way sections of the country without expectation of a direct return on the capital, but rather looking for additions to the developed natural resources and capital wealth of the nation. It is also expected to shoulder the debts and interest charge of its predecessor corporations, all of which were hopelessly bankrupt. I do not see how you can have it both ways. There is need for clarity of thought in the matter. The facts must be examined.

My position in the matter is this, and you will understand that I am only giving you my personal views. There can be no shadow of doubt that the capital

structure is top heavy. It contains interest bearing debts incurred to acquire assets now obsolete or which have ceased to exist. Also debts incurred to pay past deficits in operation, also capital stocks definitely determined by competent tribunals to be worthless.

The question of writing down the capital structure of the Canadian National Railways is not new. The matter was investigated under the Board of Audit Act (1925). Certain recommendations were made in a joint report submitted by Edwards Morgan & Company and Peat Marwick Mitchell & Company, and the recommendations then made went further relatively than the recommendations now under review.

The report of the recent Royal Commission on page 30 states "this Commission is of the opinion that it must frankly recognize that a very substantial part of the money invested in the railways comprised within the Canadian National System must be regarded as lost and its capital liabilities should be heavily written down," and asked that the question have early attention by the board of Trustees.

I judge by certain criticisms that it is not understood that no proposal has been made to write out of the railway accounts any loans furnished for *capital expenditures*. The amounts to be written out have to do with funds furnished to cover operating deficits and bookkeeping entries for interest. In respect of funds furnished by the government for capital expenditures, the proposal is that such funds be represented by shares rather than loans in order that there may be a proper relationship between the two classes of capital. Such a change in class of security does not reduce the equity of the government in any way.

The proposals do not require changes in Public Accounts. The amounts which might affect Net Debt which it is proposed to write out of the railway accounts have already been written into net debt in Public Accounts.

I think members of the Committee will readily agree that loans for deficits are not capitalizable items. They add nothing to the investment, and are incapable of earning any return. Interest thereon constitutes an unfair charge against current operations. The principle has been adopted by the Government as from January 1st, 1932. The Canadian National-Canadian Pacific Act, 1933, Section 12, says "Income deficits shall not be funded." The principle should now be applied retroactively.

As regards worthless stocks, is it not inconsistent to take a position with the Grand Trunk shareholders that their stock was worthless and at the same time insist that such stock be continued at face value in the account of the Company?

It appears to me that it could be argued with much force that the writing down should even go further than has been recommended. However the matter in the final analysis is one for the Parliament of Canada to determine.

Referring further to the criticism which I have read against the recommendations of the auditors: it has been said that what is proposed would be a distinctly dishonest form of bookkeeping and that those supporting the recommendations are parties to a calculated deception of the Canadian taxpayer. I regret that statements of this sort should be used in a public discussion of the matter. It is also said that it is simply a matter of bookkeeping and will effect no useful purpose. I disagree with this view. There are many reasons, one of which is the disheartening effect upon the management and the employees who must face year after year an insurmountable burden of debt. The effect of this should not be underestimated. The enterprise viewed as a business concern is also in my opinion prejudicially affected by this condition. I believe it would stimulate the organization if they were given an objective which it would be within their power to reach. If that objective should be to earn the interest on

the funded debt in the hands of the public that would constitute a task of real magnitude, but not beyond the possibility of accomplishment with a return of something like normal conditions. We must not forget that there can never be a repetition of expenditure on a scale such as existed during the last decade.

There is one other matter to which I must refer. Reference was made by a member of the Committee to public addresses delivered by the President of the Canadian Pacific Railway and I was asked to comment on these. It had not been my intention, for reasons which I shall later state, to refer to these speeches or to the efforts which are presently being carried on to promote the idea of amalgamation or, failing that, unified management of the two great railway systems, but since the matter has been raised in the Committee I feel it my duty to make a brief statement.

Let me say in the first place that the Trustees have purposely refrained from entering into a public controversy on these questions. It has, however, been considered desirable that the employees of the Canadian National Railways should know the situation and how the appointment of the Trustees affected them. In view of articles and statements in the press and elsewhere, a feeling of unrest was developing in the organization, and in a recent number of the Canadian National Railways Magazine, and in addresses to meetings in Montreal, Toronto, Winnipeg and Moncton, confined to railway employees, the matters of amalgamation and unified control were touched on. The results, it is believed, have been a strengthening of the morale of the employees. There is, however, a different attitude to be taken towards public discussions of these questions on the part of the Trustees.

It will be readily recognized that there is a vast difference between the powers of the Trustees and those of the Directors of the Canadian Pacific Railway, and nowhere is this greater than in matters pertaining to the formation of public opinion. It is open to the latter body to exercise as broadly as they wish, and at whatever expense they care to incur, their rights as private citizens, and, as the controllers of private property, to place their views and aims before Parliament and the Country. The Trustees must carry on within a definitely circumscribed area, and quite properly so.

The events which led up to the appointment of a Board of Trustees will no doubt be fresh in the minds of members of the Committee. The report of the Duff Commission was carefully considered by Parliament and it must be assumed that the views of those who appeared before the Commission, and especially those affected by its recommendations, received earnest attention. In so far as those views were not recommended to nor adopted by Parliament, it is reasonable to think that they were definitely disapproved of, while in so far as they were enacted into the statutes of the country, they must be accepted as indicating exactly and precisely the wish of Parliament. In the Duff Commission Report, and in the Act of Parliament which followed it, certain directions were given both railways. Among other things they were instructed, for the purposes of effecting economies and providing for more remunerative operation, to attempt forthwith to agree and continuously to endeavour to agree upon such co-operative measures, plans, and arrangements as are fair and reasonable and best adapted to effect such purposes. By the same Act they are further directed to meet by their proper officers forthwith and from time to time as they may agree to discuss and to effect by agreement if possible the purposes set forth in the Act.

The Trustees of the Canadian National Railways felt that if they were to carry out the obligation thus imposed upon them by Parliament itself, they could not, consistently with their duty, enter into any argument or discussion in reference to subject matters which were expressly forbidden by Parliament itself, for

Section 27 of the Canadian National-Canadian Pacific Act (1933) expressly provides that "Nothing in this Act shall be deemed to authorize the amalgamation of any railway company which is comprised in National Railways with any railway company which is comprised in Pacific Railways nor to authorize the unified management and control of the railway system which forms part of National Railways with the railway system which forms part of Pacific Railways."

The Trustees have by their oath of office assumed the responsibility of carrying out on their part the terms of the Act of Parliament, and any attempt by them to publicly answer propaganda urging amalgamation or unified control might, and probably would, place them in a false position.

There might well be an even more serious result. The essence of all co-operative plans is good will and earnestness towards the accomplishment of the object in view. The public controversy of the nature indicated, as well as being improper on the part of the Trustees, would, because of its futility raise obstacles in the way of the plan of co-operation.

What I am seeking to do is to make clear the reasons which, even if I were minded to do so, prevent me from combating propaganda in a battle of words. My desire, and that of my fellow Trustees, is to perform the duties placed upon us by the Act of Parliament, not to dissipate our energies in trying to change it. That is a matter entirely for the Parliament of Canada. We desire to get on the closest terms of co-operation with the Canadian Pacific Railway, and our efforts will be devoted to giving the Canadian people as good a transportation service at as low a cost as is possible, without any desire to hurt our great competitor.

Mr. HANBURY: I wish to congratulate the chairman of the board on the statement he has just read to this committee. I believe it will go far to alter the view that the public have been given and many of them hold of the hopelessness of the Canadian National Railway.

Hon. Mr. EULER: I would like to second what Mr. Hanbury has said. I think the chairman is to be congratulated on the statement. There is just one suggestion I would like to make or, perhaps, enquire in regard thereto. I agreed with him when he said that it is not his desire to enter into a public controversy with the heads of the C.P.R. I wonder whether I might ask him if there is anything in the most recent speech that was delivered by the president of the Canadian Pacific Railway, so far as facts are concerned, when referring to the Canadian National Railways. I am casting no blame upon Mr. Beatty for making any statement which he chooses to make believing it to be true. I would like to ask the chairman of the Board whether there is anything in that last statement—I have no doubt he has a copy of the printed speech—which in any way conflicts with the facts—for instance, with regard to capitalization and the interest to be paid and so on. I would like to add that while I agree with the chairman that he need not get into any public controversy with the other railway, nevertheless whenever anything does issue from that other railway, if it does, which seriously prejudices in the minds of the public the interests of the Canadian National Railways, then, in my mind it becomes the duty of the chairman of the Board to combat and contradict such statement.

There is just one other point I would like to remark upon, and that is with regard to the writing down of the capitalization. He makes a reference to the report of the official auditors of the Canadian National Railways, and I think I am right when I say that the suggestion which he makes, under which the capitalization would be reduced by something like a billion dollars, I think, would require merely bookkeeping entries in the books of the Canadian National Railways.

Hon. Mr. FULLERTON: Correct.

Hon. Mr. EULER: Now, there is this anomaly that on the books of the federal government, or the Minister of Finance, if you like, the amounts which are still being carried as assets on the books of the railways, such as deficits and things of that sort, the taking over of stocks which have no value at all, and interest on investment—there is this anomaly that the Board is carrying those items on the books of the railway as liabilities, while the government is no longer carrying them as assets.

Hon. Mr. FULLERTON: That is the correct position, as I understand it.

Hon. Mr. EULER: Now, the Board is in very complete charge of the railway, and I should think, without regard to any future writing down which may be made on the basis of the possibility of the earning of revenues on a fair capitalization that they could, at least, reconcile their books with those of the government. It is merely a matter of bookkeeping, and I would make the suggestion that if it is not a matter of policy for the government to deal with—as a matter of fact the policy of the government, by its action, has been to write this off, to write them into the national debt, and they are not any longer to carry them as a charge against the national railways—then why in the world should the national railways carry as liabilities, charging themselves with liabilities to the government, which the government itself is not carrying as assets? It seems to me it is quite anomalous, and I think it would be quite within the province of the directors of the Canadian National Railways to, at least, write that off.

I quite appreciate also that there should be some further survey made to place the capitalization of the national railways, after very careful survey, on some definite principle—perhaps as to actual physical value of the road and the fair earning capacity, and then, later on, make a further reappraisal and write down further the capitalization.

Hon. Mr. MANION: Just to make that clear. There has been no change, as far as I know, in the method of bookkeeping.

The CHAIRMAN: It has always been carried in the same way.

Hon. Mr. EULER: I understand that it has been done in a certain way, but I am not wedded to precedent alone. In fact, sometimes some of my lawyer friends make the suggestion that something has always been done in a certain way; that seems sometimes to me to be a good reason for changing it. I am making no criticism of the present government, and certainly not of the former government, but I am suggesting that we would be quite consistent if the railway reconciled its books with those of the Canadian government.

Hon. Mr. FULLERTON: There is some doubt whether that that could be done without referring it to parliament.

Hon. Mr. EULER: It seems to me it would be only common sense to do it.

Hon. Mr. MANION: We had better know whether that is true or not. If you do not mind I would like to call Mr. Roberts of the Department of Finance. I do not know the answer myself.

Mr. B. J. ROBERTS: Mr. Chairman, I would say no; because parliament has authorized the Department of Finance to pay out certain monies as a loan to the Canadian National Railways at such rates of interests as the Governor in Council may determine; and until parliament, either through the operation of the Public Accounts Committee, or by statute, changes that situation, we are bound to charge the railways—to set up in our books, in the first place, the amount as an asset—and to charge the railways interest, and the railways themselves are bound to regard it as a debt owed just as much as any other debt, although I think a large amount of it has been vitiated by losses.

Hon. Mr. EULER: There must be a difference of opinion, because I understood, with all respect to the chairman, that it was included in the national debt. May be I am wrong in that.

Mr. ROBERTS: You are not wrong in that; but we set them up as assets—as non-active assets, and in estimating our net debt we do not deduct them from our gross liabilities, as we do, for instance, with the cash we have on hand and the assets earning interest.

Hon. Mr. MANION: Non-active assets are assets you do not expect to collect?

Mr. ROBERTS: Yes. Legally they are still obligations, and that is just the point. The railways are not free, the railways are bound by their debt. They give us security in the form of a promissory note, or some other form of security. In the old days, we received bonds, but, now we receive obligations in the form of promissory notes which carry interest. But the government has never carried that interest into its revenue account; otherwise, it would be fictitiously expending its revenue. The government has never written its assets off—the loans are shown in the public accounts as non-active assets.

Hon. Mr. EULER: Are you carrying in the form of notes or in some other documentary form all these liabilities which you regard, from the government's point of view, as non-active assets?

Mr. ROBERTS: Yes, to the extent of some \$655,000,000.

Hon. Mr. EULER: You are carrying them in the form of notes. Have you notes to show for them?

Mr. ROBERTS: We have security for every one of these advances.

Mr. SMART: Page 21 of the annual report, gives a list of the government loans.

Mr. FRASER: What difference has there been in the treatment of the deficit during the past two years?

Mr. ROBERTS: In the last two years the deficits have been written right out as government expenditures; there is no asset for that; but I am speaking of what stands in the books now as loans and what the auditor's report refers to as being the amount of Dominion government account. Following the Act passed last year based on the report of the Royal Commission, the current deficits are not capitalized; they are charged to the expenditure of the Dominion just the same as the cost of the House of Commons. The only thing I wanted to be clear on is that parliament must take action before the Department of Finance can relieve the railways of their liability for the loans, and before the railways can be free of the obligation of carrying these accounts as liabilities in their books.

Mr. GEARY: That has been done from time to time by legislation—they have been transferred to non-active?

Mr. ROBERTS: Yes. That is not by legislation. The transfer to non-active is done in the discretion of the Minister of Finance on a report to parliament. There is no legislative action about it. If you look at the public accounts, so far as the balancing is concerned there is no difference between a good asset and a bad asset—they are both on the asset side; but in estimating the net debt for the purpose of indicating to the country what the real burden of debt is, the active assets are reduced from the gross liabilities to arrive at the net debt. Now, in arriving at the burden of debt on the public of Canada, we do not consider as active assets or as any relief from the burden of carrying the debt, anything that the government has put into railways, totalling \$665,000,000.

Mr. FRASER: Have you any precedent for the writing off of such a debt as the railway debt?

Mr. ROBERTS: In the old days the Public Accounts committee used to meet more or less regularly and go over the items in our assets, and from time to time they have authorized writing off certain sums. That was their function in that respect for years.

Hon. Mr. EULER: In your opinion, would it be the proper thing to do since there are these non-active assets which you never collect, to write them off?

Mr. ROBERTS: I would not care to express my opinion upon a matter that concerned parliament.

Hon. Mr. EULER: Parliament has not any opinion so far.

Mr. ROBERTS: As a matter of fact, the public accounts of Canada serve two purposes—one to portray the debt position of the country, and the other is a record of expenditure. For instance, we have in our books the cost of the parliament building in the capital expenditures, but so far as being an active asset, in the sense of earning anything, they do not exist. The public accounts serve two purposes—they are a record of expenditures and they are a statement of assets and liabilities.

Mr. FRASER: Would the proper position be to have the Public Accounts committee get together and recommend the writing off of such items?

Mr. ROBERTS: All I say, Mr. Fraser, is this, that some form of parliamentary action is required before the railways can be released.

Mr. FRASER: And heretofore the Public Accounts committee have dealt with such things?

Mr. ROBERTS: Yes, the Public Accounts committee can do it.

Hon. Mr. MANION: I asked Mr. Roberts to speak in order to avoid any misunderstanding, because Mr. Smart took that stand. The railways cannot do this without the consent of parliament?

Mr. ROBERTS: Yes. I should perhaps explain that there is one small item which we carry as an active asset which goes back to the old days when we were operating Canadian government railways as government property. The stores and open accounts of the Canadian government railways were carried in our books as an active asset and the amount still stands in that way. Otherwise, the whole railway expenditure of the Dominion is non-active.

Mr. McGIBBON: Can you tell us what part of the money that has been advanced to the railways is due to covering up deficits and how much is for expansion and so forth?

Mr. ROBERTS: I think they were substantial figures for deficits according to the certifications of the amounts paid—between three and four hundred million dollars went for deficits.

Mr. HANBURY: Does that include the Intercolonial?

Mr. ROBERTS: No, only the government railways from the time they were amalgamated in one operation in 1923.

Mr. McGIBBON: According to the Duff report I think the figure was \$450,000,000 for the last ten years. On the period their examination covered that went to cover up deficits; about an equal amount went to betterment and expansion of the road.

Hon. Mr. MANION: I have the actual figures here as given to me by my department. They are along the lines of those stated by Dr. McGibbon—not quite so much—about \$400,000,000 out of the government debt apparently went for deficits.

Mr. FRASER: Since 1923.

Mr. ROBERTS: Oh, no.

Hon. Mr. MANION: These are all the advances. A little over \$300,000,000 went into capital.

Mr. McGIBBON: I do not like to dispute your figures, but I think I am certain of my figures as far as the Duff report was concerned. \$912,000,000 were added to the debt of the railways for the period their examination covered, and that was split about fifty-fifty approximately.

Hon. Mr. MANION: That is not very much different from what I said.

Mr. McGIBBON: I would like to ask Mr. Fullerton a question: is this \$11,-630,000 an operating profit for the first five months?

Hon. Mr. FULLERTON: No, gross revenue. Operating profit to the end of April was a little over a million and a half.

Mr. McGIBBON: You have a million and a half up to the end of April?

Hon. Mr. FULLERTON: Last year we were down four and a half millions.

Mr. McGIBBON: That is for the first three months or four months you have an operating profit of one and a half million dollars to apply to the \$57,000,000 interest?

Hon. Mr. FULLERTON: Yes.

Mr. McGIBBON: Can you give us any idea what operating profit you anticipate for the year?

Hon. Mr. FULLERTON: About \$15,000,000, net revenue.

Hon. Mr. MANION: May I clear up one point. Mr. Fullerton agrees, but it is not in his statement. That is, that even by the refinancing suggested, (so far as the money owing the government is concerned) it would not make the difference of a dollar to the Canadian National Railways because they are not paying anything on that to the government.

Hon. Mr. FULLERTON: Well, no; that is perfectly true.

Hon. Mr. EULER: Of course not. I think that is admitted by everybody.

Hon. Mr. MANION: No. I know that you know and members of the committee know it, and it is probably known to members of parliament who have given the matter any study; but I am not speaking of members of parliament but of the general public, and, after reading articles and statements made outside I know they are not familiar with it. I have had a statement sent to me, for example, positively asserting that if we would wipe out this debt to the government we would put the Canadian National Railways in a position to pay its way. I want it understood that by wiping out the whole \$1,400,000,000 owing to the government this minute it would not make one dollar of difference in the way of earnings or net profits of the Canadian National Railways.

Hon. Mr. EULER: We find a good many people in this country, especially in eastern Canada and some in Ontario, making the statement that if we were to hand over the Canadian National Railways to the C. P. R.—they say give them away—one man suggested selling them for a dollar—we would be better off. Well, I would not favour that. I think the public should understand that even if they got rid of the Canadian National Railways, let us say to the C. P. R. which is about the only concern that might think of purchasing them, we would not get rid of the liability; they would still have to pay.

Hon. Mr. MANION: That is, the debt owing to the public.

Mr. GRAY: I am glad the Minister brought out that particular point. At the same time our opponents are using that in the picture, and it will, at least, give us a new picture of the set-up of the Canadian National Railways. I agree with the Minister in regard to this matter and with Mr. Fullerton, the chairman of the Board, who has dealt with it so ably in his report. I think some action will have to be taken. I have been a member of the committee for some six years. We have talked about it, and every member of the government has discussed it. I was in hopes that you, sir, would have taken some action in connection with it before you had to relinquish the position of Minister.

Hon. Mr. MANION: I am not relinquishing the position.

Mr. GRAY: I am afraid, perhaps, that is too good; but there still may be time, with your initiative, sir, to take action at once. However, I do want to join with others who have expressed their congratulations to the chairman of the Board in regard to his report. I want to mention one thing with regard to the meetings that have been held, to the reports of those meetings and the statements made by the chairman in the Canadian National Railways magazines. I agree with those statements 100 per cent. They have helped the morale of the employees of the Canadian National Railways, and have helped to bolster up the feelings of the general public with reference to the Canadian National Railways. I hope the Canadian National Railways will continue to hold these meetings such as have been held in Toronto and Montreal. But I rose to my feet with the object of asking a question with respect to co-operation. While the chairman of the Board has stated that he does not intend to enter into an argument on this particular point and that he does not intend to question the rights of Mr. Beatty, nor do I, to make whatever statement he sees fit—he is the president of a privately owned road and may be in that position while I am not—yet, the members of this committee are trying to give the chairman and his board of trustees of the Canadian National Railways a fair chance under the new set-up under the Canadian National-Canadian Pacific Act of 1933. Now, I find that Mr. Beatty, as late as May of this year, states that when the insufficiency of co-operation is clearly established—this is found on page 16 of his report—after stating first the duties that were imposed under the Act—then he goes on to add: “We do not propose to leave the Canadian Pacific open to the charge that by its attitude it did anything to wreck the plan.” Now, what hope have we of getting anywhere when a man will say virtually—when the insufficiency of this plan is clearly established—in the meantime we are going to pretend we are co-operating, but simply for the purpose of preventing the public saying they had not tried. On page 21 he goes on to say: “The policy of compulsory co-operation, although it is being given a fair trial, offers little promise of substantial relief” and so on. I deprecate remarks of that kind, although I realize that not much can be done about it. But there is a matter that I feel can be brought to the attention of this committee. In his speeches—not only in this speech—he refers—I am not going to mention the name of Sir Henry Thornton, although he does, by the way—but he brings in the name of Mr. Fairweather, economist of the Canadian National Railways, as stating that estimates of those savings were made at various times. The words used are: “Estimates of those savings were made at various times by the late Lord Shaughnessy, by the late Sir Henry Thornton, by Mr. Fairweather, economist of the Canadian National Railways, and by the present officers of the Canadian Pacific. These submissions can be regarded with respect as fruits of deep study, conducted by men of experience. All of their estimates, though made at different times, are very similar in result.” Now, Mr. Chairman, in my reading of the various speeches Mr. Beatty has brought this out, that he has used in those speeches the names of Canadian National officials. I mention particularly the name of Mr. Fairweather who is here to-day and who has given evidence before this committee and for whose opinion the committee has the highest regard. Now, Mr. Fairweather, in my reading of the Duff report, does not bear that out. Mr. Fairweather gave an opinion before the Duff Commission with respect to this matter, and my reading of it does not bear that out that in the final analysis he did believe that the saving which Mr. Beatty now says can be effected by amalgamation can be made. Now, that is my reading of his evidence. I may be wrong. But once and for all I suggest that in fairness to the Canadian National Railways and in fairness to Mr. Fairweather himself and to this committee we should hear from either Mr. Fullerton or Mr. Fairweather whose name has been used: I think Mr. Fairweather will be quite competent to answer for himself. If that is a correct statement let us know it; if it is not, let us know it.

Hon. Mr. FULLERTON: Mr. Chairman, I am glad this point has been brought up. This is, of course, the difficulty with which we are faced. There is a statement made, a deliberate statement that Mr. Fairweather stated that savings of around \$55,000,000 could be made. Mr. Fairweather says that that statement is most misleading. I would ask, Mr. Chairman, that Mr. Fairweather be permitted to make his statement.

The CHAIRMAN: Certainly. The Committee will be very glad to hear from Mr. Fairweather.

Mr. FAIRWEATHER: Mr. Chairman and gentlemen, this coupling of my name with estimates made as to the huge economies that would result from amalgamation may be looked at as rather threshing straw, because the whole subject was thoroughly canvassed by the Royal Commission. It is true that in my evidence before the Royal Commission I did submit an estimate of the theoretical economies which might be anticipated from consolidation. I did that at the request of the Commission; they specifically asked me to do it in a technical sense so that they might be informed as to the top amount which a technical officer would set as to the economies from amalgamation. In discussing that estimate in detail, I pointed out to them the serious qualification that went with them, because it is one of those things which it is easy to put down on paper but terribly hard to translate into accomplishment, and you will find that is characteristic of every estimate bearing on the unification of railways or of any other enterprise. For instance, down in the United States only last year a man came forward with a plan to effect economies of \$730,000,000 in the railway bill of the United States if they would only unify the property. That particular project was subjected to searching scrutiny by the Federal co-ordinator, and after searching scrutiny the \$730,000,000 dwindled to some \$200,000,000 odd. And so it is still a paper figure. I pointed out similar things to the Commission. I also pointed out that in attempting to put such a program into effect there would be a profound disturbance in the industrial and economic development of the country; that if the railway were damaged a vital part of the country with its lines of railway feeding lumbering interests, mining interests, agricultural interests, industrial sections of the country, furnishing employment and things of that character—terminal facilities, roundhouses, divisional points and all the rest, would be hurt. If an attempt were made to carry out anything like the scale of economies such as I have theoretically set down you would get into a position where you would do a very great deal of damage to the country at large; and, therefore, with regard to economies that, from the railway point of view, from the narrower railway point of view, I might say, "Yes, you can shut the shop up." If you want a specific instance we might take the Stratford shop. Yes, you can shut the Stratford shops up and concentrate the work in the shops, say, at Montreal, and you will effect an economy. Or you can shut down some railway shops in the city of Quebec and effect an economy. Or you can shut down the Moncton shops and effect an economy. But when you do it you must realize that from the national standpoint you are changing the whole industrial picture of the country.

Hon. Mr. EULER: Or when you buy coal in Nova Scotia which you can buy cheaper in the west?

Mr. FAIRWEATHER: Yes. I pointed that out also that if at that particular time we had been absolutely economical in our attitude we would not have purchased one pound of rails in Canada, and we would not have purchased one pound of coal from the Nova Scotia mines at that particular time.

Hon. Mr. MANION: Before you get away from that. I do not know that that statement should go out bodily. I think that statement should be modified.

Do you mean to suggest that at no time you could have bought rails in Canada as cheaply as in the United States?

Mr. FAIRWEATHER: No, sir. I said at that particular time. The market was such—

Hon. Mr. MANION: At what particular time?

Mr. FAIRWEATHER: At the particular time which was mentioned in my evidence.

Mr. MCGIBBON: Do you think that was a fair statement to make?

Mr. FAIRWEATHER: It was a statement, anyway.

Hon. Mr. MANION: I do not think it is good to pass out into the country generally that at no time could we have bought rails in Canada at a comparable price with railways in the United States, and the same applies to coal.

Mr. FAIRWEATHER: I certainly would not desire to make such a broad statement, and in that sense I would retract it.

Mr. CANTLEY: It is not correct in regard to coal.

Mr. FAIRWEATHER: At that particular time—

Mr. CANTLEY: At no particular time is it correct in regard to coal. That statement is quite unfair and should not go on the record.

Mr. FAIRWEATHER: Well, I would be quite willing to retract it, sir. I simply made it in passing.

Mr. CANTLEY: There never was a time when you could not have bought coal in the province of Nova Scotia at less than you paid for it.

Mr. FAIRWEATHER: In Nova Scotia?

Hon. Mr. EULER: Either it is true or it is not. It has been established in this committee that an allowance was made for national purposes to buy coal in Nova Scotia. I am not particularly criticizing that, but I do not think it is fair to charge that against the Canadian National Railways as a business proposition.

Hon. Mr. MANION: I do not think it was a fair statement to make. The reason I interrupted Mr. Fairweather was that I did not think it was a good thing for the welfare of this country that the idea should go abroad that we cannot manufacture rails cheap enough, because I understand we can manufacture them and sell them for the same price as they sell them in the United States, and if I am not badly mistaken, when the Canadian National Railways buy rails, as a rule they pay the same price for them in the Canadian plants as they would pay in the United States.

Hon. Mr. EULER: I do not know about rails.

Hon. Mr. MANION: That is the reason I interrupted Mr. Fairweather.

Mr. GRAY: Let us call it a draw between rails and coal.

Hon. Mr. MANION: I think the fact is true about coal to a certain extent also.

Mr. FAIRWEATHER: Might I be permitted to withdraw the statement I made with regard to this matter? I gladly do it. It is really not pertinent to this particular subject. I further pointed out to the Commission that it was very doubtful if the economies, even if they could be put into effect would stay put, because from my experience in the railway game there is nothing that keeps us on our toes so much as the friendly competition of the Canadian Pacific Railway. If that were absent, it is my personal opinion that there would be a slackening of the morale of the organization, and it would take only a very slight slackening of the morale of the organization to reduce its efficiency and increase operating expenses.

Hon. Mr. EULER: Is there not a slackening in the morale for other reasons?

Mr. FAIRWEATHER: I was merely discussing—

Hon. Mr. EULER: When you are discussing morale—

Mr. FAIRWEATHER: —competition as compared with unification; and one of the criticisms I made of unification was that in my opinion there would be a slackening in the morale of the organization. On the other hand, I held that a considerable realizable economy, as distinct from theoretical economy, could be effected by a sensible policy of co-operation between the two systems.

Mr. MCGIBBON: May I ask how much that would amount to in dollars and cents?

Mr. FAIRWEATHER: Well, in dollars and cents it is almost impossible to put a figure on it, because it really depends upon how far you wish to go and how ruthless you wish to be.

Mr. MCGIBBON: You have effected a sum to the amount of one million and a quarter; is that approximately the maximum?

Mr. FAIRWEATHER: I should say that with the opportunity for co-operative economies there is lots of field for it. Therefore, taking all in all my estimate which I made to the Royal Commission, I warned them that it was a theoretical estimate; that it was not a realizable figure, in my opinion; and that it was made at their request so that they might have the advice of a railway technical officer as to what might be accomplished, but when the various implications of it were brought out I qualified it by saying that I personally was not in favour of amalgamation—I was in favour of co-operation.

Hon. Mr. MANION: Have you said what your estimate of possible economies was on what you call a theoretical basis?

Mr. FAIRWEATHER: Of course, that depends to a great extent on the traffic base. It was the year 1930 which I took for the statement, and the theoretical economy I set at about \$55,000,000. This you could achieve only after a long period of adjustment; you could not do it instantly. As I say, it is subject to all these qualifications, and to that would be added a possible million and a half as the interest on released material—locomotives, cars, rails, abandoned lines and things like that. But that was a purely theoretical figure.

Hon. Mr. EULER: I do not want to delay the proceedings, and I certainly do not want to embarrass the chairman of the Board, but I have made reference to the speech which we have in print before us by the president of the C.P.R., and I asked the chairman of the Board as to whether, in his opinion, there were things there that were, perhaps, not according to facts as he sees them. I am not accusing Mr. Beatty or willingly making any wrong assertions, but just to bring to a point what I mean, and there may be other items, I will read from the speech: "The greatest annual revenue which the Canadian National ever enjoyed was \$304,000,000 in 1928 from which they saved \$44,000,000 for interest, and that was only 33½ per cent of the amount necessary to pay interest at 5 per cent on the total debt as at the end of 1931." That would indicate that \$44,000,000 was only one-third of what was necessary to pay the interest which means that the interest was about \$130,000,000. Well, that, of course, is based on this crazy, absurd top-heavy capitalization of two and a half billion dollars.

Hon. Mr. FULLERTON: Even at that, it is a third over.

Hon. Mr. EULER: I am glad to hear the chairman of the Board say that, because I think when these statements come out as they have come out they are just giving ammunition to the enemies of the Canadian National Railways to discredit the road; and not only that but to discourage the Canadian people with the Canadian National Railways, and they are giving a blacker picture than we have any right to allow to continue. That is one reason why I say we ought to make that bookkeeping entry. If we have to get that permission from parliament, well and good. Because it does not give a fair picture to the Cana-

dian people of the Canadian National Railways. I again repeat that when it comes to statements made by a man so prominent as the president of the C.P.R., and when those statements are misleading to the general public, prejudicing the views of the Canadian public in regard to our own railway, I think with all due respect that it becomes the duty of those who are in charge of the Canadian National Railways to correct that impression. I am not advocating that they get into a controversy with the C.P.R.

Mr. McGIBBON: That is a matter of arithmetic. The debt on the railways is \$2,600,000,000. At 5 per cent that would be \$130,000,000.

Hon. Mr. EULER: But in that you are including all these ancient deficits, some of them existed before the Canadian National Railways was in existence. I do not think it is fair to charge that upon the railways; it is not fair to burden them with that. I am impressing that again to show that it enables others to continue this wrong impression and to enlarge upon it.

Hon. Mr. FULLERTON: May I explain that in 1928 we had \$45,000,000 odd net available for interest. The interest due the public was \$42,000,000. We had \$3,185,000 over and above what would pay the interest due the public. That was the situation in 1928.

Hon. Mr. EULER: It would not be correct to say that only supplied one-third of the interest that was paid.

Hon. Mr. FULLERTON: I cannot understand it.

Mr. FRASER: That would be the peak year?

Hon. Mr. FULLERTON: That would be the peak year.

Hon. Mr. EULER: It is bad enough without having it exaggerated.

Mr. GRAY: Having heard what Mr. Fairweather has said, and in view of the fact that I have read, prior to our discussion last year, the evidence somewhat carefully, after hearing Mr. Beatty, and Sir Henry Thornton and Mr. Fairweather's explanation which jibes with my recollection of the reading of the report, that commission which was seriously considering the whole matter gave us their report against any amalgamation, and the Minister sponsoring the Bill also added a clause to that effect. I say that once and for all if Mr. Beatty wants to have his plan he is perfectly justified in going up and down from Vancouver to Halifax and talking to the full extent and printing thousands or millions of copies if he so desires, but he must leave out of his discussion the names of Canadian National officials unless he is authorized to do so.

Mr. McGIBBON: Mr. Chairman, I rise only to speak on behalf of one class of people—the Canadian taxpayer. Now, it is true that we had a surplus in 1928, but we would be far from producing a surplus to-day. 1928, probably, was the peak year in business and may be for a good many years to come, but a surplus then of \$45,000,000 would create quite a deficit to-day. Then, to my mind, this country is going to be faced in the future with an expansion for betterments and for replacements. I have watched the stock of both railways and I would say as an observer it is being depreciated. It is standing out there under the heavens for 365 days; at least a lot of it is. I am not speaking on behalf of railway men. The Canadian National Railways, as I said are our property. We should do everything to conserve them for the Canadian people. But the Canadian taxpayer is pretty heavily burdened to-day. Now, I think the present system should continue for a reasonable time, but I do not think we should put out of our minds the possibility of reducing the taxation in this country by joint operation. I have made these remarks before in the House; they are not new. Amalgamation I am opposed to. Joint operation, if it would conserve to the people anything like the estimates given to us even by Mr. Ruel, by Mr. Beatty or by Mr. Fairweather—and I think I am at liberty to quote—as Sir Henry Thornton said, it would save \$75,000,000. Of course,

there are difficulties. The first difficulty is in regard to replacement of labour. I would say that if we have to come to this in a year or two we should take part of that \$75,000,000 and give those engaged in labour who are displaced a pension until such time as they are recalled. I suppose putting these two roads together for joint operation would probably take six or seven years, and the replacement in labour is about 5 per cent per year. I think, possibly, labour would not have very much to fear. The best evidence I can give you about the benefits of this plan is to take that pool train which runs from here to Toronto; they simply make us use all the upper berths. Unless you order a berth three or four days ahead you simply cannot get a lower. I have had to travel over half the time in an upper berth because I cannot be sure when I am coming back, and I have had to wait until the last minute to get one.

Hon. Mr. EULER: Exercise is good for you.

Mr. McGIBBON: Yes. What I want to get over is that everyone here is interested in these railways. Surely we are interested in the taxpayers of this country; I do not think we should obliterate the alternative plan, as Mr. Gray says.

Mr. GRAY: I did not say that. I said Mr. Beatty could go ahead.

Mr. McGIBBON: I am not concerned with Mr. Beatty more than the others. I think it is unfair to expect the trustees in the few months they have been in operation to work miracles. That cannot be done. The discouraging fact to me is that there has only been a saving of \$1,250,000. Certainly, we have a debt to the public, and I am excluding everything else. It is gone and can be thrown into the sea. You might as well forget it, except, probably, as a monument to our incapacity in the past. If we can do anything to relieve this \$57,000,000 of debt we owe to the public and which we have got to pay I think we should consider it with an open mind. If you can in the next year or two make reasonable progress under the present system, well and good. The difficulty I see is that we have got to have a much larger operating profit than we had even in 1928. Was it \$43,000,000 we owed to the public at that time in interest?

Hon. Mr. MANION: Forty-one.

Mr. McGIBBON: Now, it is \$57,000,000. That is over a one-third increase in our debt. I cannot imagine we are going to increase our traffic in this post-depression period to that extent. Depreciation is a very serious thing in railways. We are making no provision for it. As far as I am concerned I approach this subject with an open mind, and I would like to assure labour that if there is any displacement and any unification that they will be put on a reasonable pension until such time as they would be reabsorbed into the system. But the main thing is to cast our eyes into the future to get a proper railway system for this country that will not bear too heavily on the taxpayer. God knows we are taxed to death now.

Hon. Mr. EULER: In connection with the matter of increasing the revenues, one of the chief difficulties which the railways have had to face—both railway systems—has been the competition which has come to them in the last few years of the truck and the automobile. Would the chairman of the Board care to say whether they have any plans under which they might, perhaps, go into that field themselves and whether that would assist the situation?

Hon. Mr. FULLERTON: We have already done a lot of that.

Hon. Mr. EULER: I know. Have you any extended plans along that line.

Mr. HUNGERFORD: Mr. Chairman, and gentlemen, the subject of truck competition has been before the railways ever since it developed and a good many different plans and schemes have been thought of and studied. I do not think they have found the complete answer yet, but we are experimenting in conjunction with the Canadian Pacific in certain territories and by ourselves in other

territories and we feel we are making measurable progress in that direction. It is a fact that the development of the truck service has probably deprived the railways of a considerable portion of their revenue, not very large on a percentage basis, but still worthy of consideration, and it is very doubtful whether it can be entirely taken care of; but the measures we have in hand at the present time show certain amount of result in bringing back a measurable portion of that traffic.

Hon. Mr. MANION: In that regard, the cheap excursion trains you have been running for a year or so have brought to the company a good deal of passenger traffic, have they not?

Mr. HUNGERFORD: Yes.

Hon. Mr. MANION: I think it is worth while. You might elaborate on that.

Hon. Mr. EULER: Can you make money at a cent a mile?

Hon. Mr. MANION: Yes, they can make money.

Mr. HUNGERFORD: When you get a certain number of people travelling on a train you could make money even at that rate, but the trouble is if you run these trains too frequently you would not get the number of people.

Mr. HANBURY: In connection with these excursion trains, I notice they do not permit the people to have baggage, and they don't permit them to sleep unless they can sleep sitting up. Is there any particular reason why you could not afford sleeping accommodation for them at reasonable prices?

Mr. HUNGERFORD: Of course that materially increases the cost; at that low rate it was not felt that we were justified in providing more facilities. The rate is very low, of course.

Mr. HANBURY: Have the railway company been giving consideration to the new type of locomotive and the new equipment that is being tried out in the United States?

Mr. HUNGERFORD: We are just watching results in the United States.

Mr. FRASER (*Cariboo*): I have one question that I want to ask in connection with the statement made by the Chairman of the commission. It is rather surprising to me that on page 2 of the report, the third paragraph from the bottom of the page, the last two sentences: "In this connection I may mention it is costing us over \$2,000,000 a year in exchange on amounts required to pay interest in United States and sterling funds. This will be saved if and when Canadian currency can be stabilized on a parity with such funds." Of course, I may be very ignorant in a matter of this kind, but I thought our funds at the present time were pretty well on a parity, and I wondered why it is costing the railway \$2,000,000 at present to pay the exchange on our currency.

Hon. Mr. FULLERTON: We pay a premium on sterling purchased.

Hon. Mr. MANION: But this is when you are paying on it.

Hon. Mr. EULER: We are at a discount.

Hon. Mr. FULLERTON: In Canadian funds.

Hon. Mr. EULER: What about the other?

Hon. Mr. FULLERTON: On United States funds the exchange is about even.

Hon. Mr. MANION: I presume that is for 1933, in the past year, because at the present time I do not think it amounts to anything like that.

Hon. Mr. FULLERTON: Probably not. I think these are last year's figures. I didn't check that up.

Mr. GRAY: I didn't intend to bring this up, but Mr. Hanbury mentioned it and Mr. Hungerford answered. It is in connection with the extra cost of excursion trains. I merely give it for my own experience. On these general excursion trains I agree that what Mr. Hungerford says is quite correct, that

you can't afford extra expenses, but my experience has been that a great number of your excursions are run attached to the regular train. For instance, I have been a passenger on trains coming from Toronto to Ottawa and from Toronto to Chicago, run as part and parcel of the regular run. It does seem to me, and I have heard many complaints about it, that if there is available space on that train, that the vacant sleeping car or chair car should not be permitted on these regular trains, but filled up. There may be some reason. I was just following up what Mr. Hanbury said. I can't see the reason for the empty trains, on the regular trains. Is there some reason, why, on the regular trains, we should not be permitted to take their money Mr. Hungerford?

Mr. HUNGERFORD: Well, the thought is that you would be providing these superior facilities at a very greatly reduced rate, one out of all proportion to the regular rate at which people have the privilege of using these facilities. Of course, sleeping cars and chair cars are used by only relatively few people.

Mr. GRAY: Perhaps only a relatively few people have \$2.25 to \$2.75 to buy sleepers.

Hon. Mr. MANION: I am trying to see if I get Mr. Hungerford's argument. Did I understand you aright to mean this, that if you carried people say at a cent a mile, as you do on these excursions—I think that is your rate?

Mr. HUNGERFORD: Yes.

Hon. Mr. MANION: If you provide them with chair cars, or allow them to buy chair cars and pay less money than the ordinary traffic,—either chairs or berth—you would lose money in that way because you would have to put on separate equipment?

Mr. GRAY: I am not suggesting separate equipment, on the regular run I often travel from Toronto to Sarnia, and I am the only person in the chair car. I will be the only individual in it, have a private car. Lots of people will come in there and want to buy a seat, and they are refused because they are on excursion tickets. I am not suggesting any extra equipment, not one space, either berth or chair. What I am saying is "fill up the equipment."

Mr. MCGIBBON: That would not be fair to the man who paid the full fare.

Hon. Mr. FULLERTON: That is the idea. If you fill up the space with persons travelling on cheap fares the man who travels at full fare cannot get accommodation and will raise a big row. That is the difficulty.

Hon. Mr. MANION: I have the figures here with respect to exchange last year. Losses on United States funds in 1933 were \$4,500,000. The profit on sterling was \$1,000,000. Then there was a surcharge on collections that was taken from the charge. Anyway, the net loss apparently was \$2,294,000 on exchange last year, 1933. But I take it from that, that you are right, Mr. Fraser, that at the present time they would not be losing very much.

Hon. Mr. EULER: You say losses on United States funds were \$4,500,000?

Hon. Mr. MANION: There are credits against that, bringing it down to \$2,294,000.

Hon. Mr. EULER: There can't be any loss now on United States funds?

Hon. Mr. MANION: That is what I say. Now there will hardly be any loss. The loss in 1933 was \$2,294,000 on the total exchange, whether it was British or American. At the present time I doubt very much if the loss would amount to hundred of thousands of dollars, in fact. It would be a good deal less.

Mr. PRICE: Before the committee adjourns, I have a communication I would like to read in the nature of a complaint from the Saint John Board of Trade and Saint John Dry Dock Company. It is with regard to repairs to the transfer steamer *Charlottetown*, repairs that are going on at the present time in Montreal. As these people have desired I set forth their case, I would

like to read this letter, with your permission, in the way of inquiry and protest against what is done, and also for the attention of the Board of Trustees and the management of the railway. The letter from the Saint John Dry Dock & Shipbuilding Company reads as follows:—

The purchasing department of the Canadian National Railways asked us recently to quote on certain repairs to the car ferry *Charlottetown*, which runs between Cape Tormentine and Port Borden. We quoted on this work in competition with the Halifax Shipyards, Canadian Vickers Limited, Davie Shipbuilding Company Limited and Morton Ship Repairing Company of Quebec, and although I have heard unofficially that our price was about equal to that of Canadian Vickers Limited, the Canadian National, after requesting Vickers and ourselves to amend our prices on account of certain items being eliminated from the specification, finally awarded the contract to Canadian Vickers. She is now at the Vickers yard in Montreal, but I understand she cannot get on their dry dock for a period of twenty days on account of a ship in a damaged condition arriving just prior to the arrival of the car ferry and occupying the dry dock.

The Canadian National Railways operate four car ferries in the maritime provinces, two running between Cape Tormentine and Port Borden on the Prince Edward Island service and two running between Mulgrave and Port Hawkesbury. The first two ferries are the *Charlottetown* and the *Prince Edward Island*; the second two the *Scotia I* and *Scotia II*. These vessels operate exclusively in the maritime provinces and we depend on work of this nature—that is, work originating within the maritime provinces—to keep our organization together and provide employment for the men who are depending upon us for their livelihood. When one considers the number of Canadian government vessels, dredges and other craft operating in the St. Lawrence and the vast amount of work that is necessary to keep these craft in repair and which all goes to the St. Lawrence repair yards, it does not seem fair that the St. Lawrence yards should be asked to quote on the four car ferries that operate exclusively in the maritimes. This work should be divided between the repair companies within the maritime provinces or, if the Canadian National wish to call for tenders from upper Canadian yards, then the same privilege with respect to repair work on other Canadian government vessels in the St. Lawrence should be extended to the maritime yards.

We do not wish to be arbitrary in this matter nor do we want something that we feel we are not justly entitled to, but it does not seem fair that the work which we depend upon for our existence should be made available to the upper Canadian yards when they already have so much business within their own territory and on which they are able to quote exclusively. With the volume of business they have and on which they can depend of obtaining a fairly lucrative price, they are able to quote an exceptionally low and unfair price on work such as the Prince Edward Island ferries and the Nova Scotia-Cape Breton ferries. We are not finding fault with the management of the Canadian National Railways on account of their efforts to obtain the lowest possible prices and thereby keep down their operating costs, but we do feel that if they are going to allow the upper Canadian yard to quote on their maritime province work, then all government repair work originating on the St. Lawrence river should be thrown open to public tender and the maritime yards be given a chance to quote on the work.

I am setting our case before you in the hope that you will bring the matter to the attention of the proper authorities in Ottawa and do all you can to correct this situation.

It is signed by the general manager. I would just like to say in connection with that that it does seem unfair where we have two good, reputable concerns in the maritime provinces, and in view of the unemployment situation which exists at the present time, that these two concerns should not be sufficient to tender on this work. I think the maritime concerns deserve every consideration. As a matter of fact, it has been pointed out with respect to work on the St. Lawrence, that that work is done exclusively by the people in that district, and the maritime dredging companies are not asked to tender. I think it has been the policy of the Canadian National Railways—it is their system—to allot certain repairs in certain districts. For instance, we will take the case of repairs on cars. Certain cars are repaired in a certain division—a certain class of car—and a certain class of cars in another division. The work is distributed about from place to place. I think in this instance the Maritime Drydock Companies should have some consideration, and where there are two of them, in the Maritimes, figures can be submitted by both of them submitting tenders. I think that the work should be given to these people. I may also add that I have a protest from the Saint John Board of Trade along the same line, protesting against the giving of this work originating in the Maritime Provinces to upper Canadian concerns, while in the case of repairs originating in Quebec and Ontario, Maritime Drydock concerns are not asked to tender where work is contracted for. I would like, Mr. Chairman, to ask the general manager or the president of the Canadian National Railway if he could give some explanation, or some promise that the matter will be looked into with a view to trying to meet the wishes of the people of the Maritime Provinces.

The CHAIRMAN: Perhaps the Canadian National Railway's management can make some explanation of the matter referred to by Mr. Price.

Hon. Mr. EULER: I suppose it is a matter of price. That is not a pun, Doctor.

Mr. HUNGERFORD: Well, Mr. Chairman, in regard to Dr. Price's statement, we called for tenders in the ordinary way. During the season of navigation when the St. Lawrence is open, it is customary to call for tenders from the various firms that can be reached at the place at which the boat is located. In this particular instance the tenders were called for from Vickers and Quebec firms, as well as maritime provinces firms, and it happened that Vickers submitted the lowest tender, and the vessel was sent up in accordance with the usual practice of accepting the lowest tender.

Hon. Mr. EULER: Without disclosing the figures—I don't suppose you would want to do that—is the difference substantial?

Mr. HUNGERFORD: Yes.

Hon. Mr. MANION: Might I say that I am pretty familiar with that, because I have protests from Dr. Price and various others from the maritimes, and I passed them on to the Chairman. There is a statement in that which I think deserves a great deal of consideration by the management, and probably by the government, if the facts are as pointed out. It points out that in the case of the St. Lawrence, government vessels on the St. Lawrence—and after all, these government vessels we pass as a special item we call only for St. Lawrence shipyards to tender; whereas on this vessel which is really distinctively a maritime vessel, apparently tenders were called for not only in the maritimes but in the St. Lawrence. I think they are justified in taking the attitude that it should be the same both ways, because after all, this vessel is distinctly a maritime vessel. I think we will either have to correct that, in the matter of government vessels when they are asking for repairs, either give

the maritime shipyards an opportunity to tender, or treat the maritimes as maritime vessels and have them repaired down there. I think one or the other is necessary, to be fair.

Hon. Mr. EULER: It seems to me there is a very definite principle involved here. Are you going to run the National railways as a straight business proposition, or are you going, to some extent, to make it serve a national purpose? For instance, we have the Maritime Freight Rates Act, and what I mentioned a while ago—I hope I don't raise a delicate subject again—the matter of the coal. I am not making any complaints as to the maritime freight rates or even as to the coal, but I do believe this is sound: If we are going to use the National Railways and pay out their moneys partly for the national purpose, then it is not the National Railways that should bear the resulting loss, it is the national government that ought to bear it.

Hon. Mr. MANION: As a matter of fact, in regard to the Prince Edward car ferry and terminals, we passed it as a separate item. Mr. Smart tells me it is included in the eastern lines deficit. I don't think it is, but he says it is. I am not very sure he is right; but at any rate, we do pass it. The Prince Edward people—I am giving this as a matter of information—themselves asked, for some reason, that this should be passed as a separate item. The loss last year was \$270,000 and we had passed it as a distinct and separate item in the House of Commons.

Hon. Mr. EULER: Is it not charged against railways?

Hon. Mr. MANION: I don't know. I don't think it is. Can you tell, Mr. Fairweather?

Mr. FAIRWEATHER: It is included in the deficit.

Hon. Mr. EULER: I just want again to press on that principle. I don't think it is fair to the National Railways, as a business organization, to charge them with losses—we will call them losses—which they sustained by reason of doing something which is in the national interest and not particularly in the interest of the railways as a business proposition.

Hon. Mr. MANION: In fairness to the C.P.R.—and I have no other reason—I do know in regard to coal, that Canadian Pacific Railways buys a good deal of Canadian coal in the west, not in the east so much, but in the west they buy a good deal of Canadian coal, where they probably might save money by buying American coal. I am only pointing this out for this reason: Not only is it the duty of the Canadian Pacific Railway to do that—and I think it deserves credit for it—but in the same way it is the duty of the Canadian National Railway at times to do just what they are doing. I think both systems being great Canadian institutions—this imposes a duty in this matter.

Hon. Mr. EULER: I imagine they do that for the reason they want to attract the goodwill of their customers.

Hon. Mr. MANION: Certainly.

Hon. Mr. EULER: If they do that, it is a business proposition. But if it is done in order to aid one section of the country in the national interest, I think it is a government responsibility. I have every sympathy with the people of the maritimes in wanting to have as much work done down there as possible, especially if this particular boat is used in the maritime provinces. Otherwise, I think the other principle is the fair one.

Mr. HANSON (*York-Sunbury*): I am not a member of the committee, but might I have permission to ask one question?

The CHAIRMAN: Certainly.

Mr. HANSON (*York-Sunbury*): Is it not possible that you could arrange to have this work done as cheaply in Saint John or Halifax as you can in Montreal?

Hon. Mr. EULER: The tender didn't say so.

Mr. HANSON (*York-Sunbury*): I am just asking the question. I think it can be done. I know it can be done.

Mr. HANBURY: Why didn't they tender low enough?

Mr. CANTLEY: The other people were asked to tender a second time.

Hon. Mr. EULER: That is different. That is quite a charge.

Mr. CANTLEY: Those are the facts. Here is another point of view. How much did it cost to bring that boat up?

Hon. Mr. FULLERTON: That was all taken into consideration.

Mr. CANTLEY: That is not an answer.

Hon. Mr. FULLERTON: I can't give the particulars.

Mr. CANTLEY: How long was she off the service?

Hon. Mr. FULLERTON: I can't give you particulars without the papers before me. If you want any of those details, I will be very glad to get them for you.

Mr. CANTLEY: When she got up there, it was found that the dock was occupied, is that not true?

Hon. Mr. FULLERTON: I understand the dock was occupied after our ship had left. A ship came in disabled and had to go into dry dock.

Mr. CANTLEY: You take all that risk, bring a boat nearly 2,000 miles, which must have cost something, if you put that in there, and the cost of bringing the boat up, I submit it would cost more than if you had accepted the offer of the Saint John Dry Dock Company. Now, dispute that.

Mr. HUNGERFORD: Well, we have a very competent and able architect who is looking after the work, and Vickers happened to put in the lowest tender. It is quite true that after the boat sailed the dry dock was vacant, when the *Charlottetown* was ordered to go out and when she sailed. But after she got into the St. Lawrence river another vessel got into trouble and was ordered into dry dock by the authorities, because of danger of her sinking.

Mr. CANTLEY: That was a contingency which you did not take into account?

Mr. HUNGERFORD: That contingency may arise with any dry dock.

Mr. HANBURY: Even in the maritimes.

Mr. CANTLEY: You had just the two docks in the maritimes?

Hon. Mr. EULER: Mr. Chairman, Col. Cantley has raised a pretty serious question, or made a pretty serious statement there. I hope that it is not founded on facts. I am not questioning his word.

Mr. CANTLEY: What is it?

Hon. Mr. EULER: I think he stated the tenders were opened, and the St. Lawrence people or Vickers given a second opportunity.

Mr. CANTLEY: I understood second tenders were called for. I ask the committee whether that is correct or not.

Hon. Mr. EULER: That there is any manipulation of that sort, I certainly hope is not so.

The CHAIRMAN: I would like to understand in respect to why it is that the St. Lawrence work is allowed to be only shared in by the St. Lawrence operators, whereas maritime work is also thrown into the St. Lawrence area.

Hon. Mr. MANION: That is not a Canadian National question. Those, as I understand it, are government boats. I don't think the Canadian National have any boats on the St. Lawrence. It is a matter of government boats. That is the statement made in this letter Mr. Price read, a copy of which I have received. It is really a matter of government boats and not Canadian National.

Mr. CANTLEY: That is quite correct. There are a lot of government boats. The St. Lawrence have the whole thing.

Hon. Mr. MANION: I think either all of them should be given a chance to tender on all the boats; or if you are going to limit St. Lawrence boats to the St. Lawrence repair shops, we would limit maritime boats to maritime repair shops. I think that is a fair proposition.

Mr. HANSON (*York-Sunbury*): I agree. I think they all ought to be allowed to tender on all boats.

Mr. CANTLEY: The maritimes would be satisfied.

Hon. Mr. MANION: I am going to look into that further.

Hon. Mr. EULER: Treat them all alike.

Mr. REID: I am not a member of the committee, but might I have permission to ask Mr. Hungerford a question.

The CHAIRMAN: That is quite all right. You are a member of parliament.

Mr. REID: I made a statement in the house in connection with the bonds of the Canadian National Railway, from information given me, that the large bulk of bonds were held by railways in the United States; that is, that they had invested in the bonds that were issued by the Canadian National Railway. For my own information, and for the information of others, I would like to know if that statement has any basis.

The CHAIRMAN: I think it would be rather difficult information to give, because bonds are not usually registered.

Mr. REID: I wonder if you could procure it, if he has not got it now, because I think it should be given.

The CHAIRMAN: Most of the bonds are bearer bonds. I know that to be the case. Only those that would be registered would we know anything about. I don't know whether any officer of the company can tell. Can you give any information about that?

Mr. McGIBBON: Would he not have some idea as to the interest they would have to transmit to New York?

Hon. Mr. MANION: Can anyone give an answer to Mr. Reid's question?

Mr. FAIRWEATHER: The only thing that can be said is that the great proportion of bonds are bearer bonds. It is impossible to trace who owns them. With regard to those that are registered, it would be possible.

Hon. Mr. MANION: They would be a slight proportion of the bonds?

Mr. FAIRWEATHER: A relatively slight proportion.

The CHAIRMAN: Mr. Reid made a statement in the house that he had been told that the bonds of the Canadian National Railway were largely held by railway companies in the United States. I questioned that, because I didn't see how he could get any such information. Now he is trying to get it from you, if you can give it to him.

Mr. REID: Yes. I didn't want the statement to go just as a wild statement, an irresponsible statement. I had made the statement, and I think it should be cleared up. If it is not correct, I think it should be known.

Hon. Mr. MANION: Apparently they don't know themselves, so I don't know how you could have known, may I say, with all respect?

Hon. Mr. EULER: What difference does it make?

Hon. Mr. MANION: I contradicted him. That is the difference.

Hon. Mr. EULER: Does that change it?

Hon. Mr. MANION: That is just the difficulty.

Mr. REID: It was not from that point of view that I wanted the information, because we had settled that in the house. We had agreed to differ in the house. The other question is in connection with the statement made very recently

regarding the abandonment of lines. Let me preface that by saying that I realize the position the Chairman is in, that it might not be wise to give out any premature information.

The CHAIRMAN: In respect to what?

Mr. REID: The abandoning of lines. In fact, when the committee was in session, the plan had been laid before the commission by Mr. Beatty to abandon some 5,000 miles of line, part of which was in the province of British Columbia, and affects, shall I say, the gateway to the Pacific. That plan was not agreed to before the commission, at least by the C.N.R. Mr. Beatty, if I am quoting him correctly, stated that any abandonment should take place between Kamloops and Vancouver, as being just single track, and that is against, I think, the double track. My own people are very much exorcized over the abandonment, due principally to the fact that Mr. Beatty is in favour of the plan, and as it affects the situation in New Westminster, I have been importuned by telegram, since you made the statement the other day, of the proposed abandonment of line. I realize it might not be wisdom on your part to give out any information ahead of time, but owing to the uneasiness existing, I thought I would come down here and ask you.

Hon. Mr. FULLERTON: I am afraid you will have to excuse me from giving that information.

The CHAIRMAN: I might say this: Any abandonment of lines must be approved by the Railway Commission of Canada. Am I right in that?

Hon. Mr. FULLERTON: Yes.

The CHAIRMAN: So that nothing is going to be done in a hurry, or without plenty of discussion amongst those who are affected.

Mr. HANBURY: They will have notice before the abandonment?

The CHAIRMAN: Certainly.

Mr. FRASER: I might also say that Mr. Reid is in no different position with regard to the amalgamation, or rather abandonment from what I am. You have the whole of the line from the boundary clear down to Hope, with divisional points—two or three of them—in my territory; and I am continually importuned just as Mr. Reid is.

Mr. MCGIBBON: When do we meet again, Mr. Chairman?

The CHAIRMAN: Unless you can give me some reason for meeting again, I don't know. I want to know what you want to meet for.

Mr. HANBURY: We have not touched the reports yet.

The CHAIRMAN: No, we have not touched the reports. Mr. Gray, I have a motion of yours here. Do you want me to put it?

Mr. GRAY: Yes, if you would.

The CHAIRMAN: Moved by Mr. Gray and seconded by Mr. McGibbon that the committee recommended that it be granted leave to have the day to day proceedings printed, that standing order No. 64 be suspended in relation thereto, and that 500 copies in English and 200 copies in French be printed for the use of the members of the committee and of the house. What is your pleasure regarding that, gentlemen?

Carried.

Mr. HANSON (*York-Simbury*): Before the committee adjourns, I would like to ask one question: and if the question is premature or if it is embarrassing, it need not even be answered. The question is: Is there any reason why the public should not know what lines are contemplated being abandoned at this stage?

Mr. HANBURY: Negotiations.

Mr. HANSON (*York-Simbury*): If that question is premature, or prejudices the railway management, I certainly will not press it.

Hon. Mr. MANION: Before the president or the Chairman answer that, may I suggest that there are very great reasons against it. I am only giving you my opinion. I am not in any way in control of these officers, so that they will give their own answer. My feeling is this, that if you spread out the list of the lines that might be abandoned, which are only being considered, the concern by any section of the country that is affected, the uneasiness and discontent would, I am afraid, cause not only the government by the railway management and members to be inundated with complaints.

Mr. HANSON (*York-Sunbury*): That is the reason I asked. Who is going to bear the burden of this? It is the private member of parliament. He is going to be tween the millstones on this thing, and I hope the management will give some consideration to it. They don't go to the management on these things. They camp on the doorstep of the private member.

Hon. Mr. MANION: That is right.

Mr. HANSON (*York-Sunbury*): He is blamed if he cannot hold a particular line. That is one of the things I want the Board of Trustees to visualize, because of the action of this sort of thing. Therefore we ought to know, and that we are the sufferers and many a man perhaps will go down to defeat perhaps do something to protect ourselves.

Mr. McGIBBON: I am afraid you are getting back into politics.

Mr. HANSON (*York-Sunbury*): That is all right. You can never get it out of politics.

Mr. McGIBBON: They said they would.

Mr. HANSON (*York-Sunbury*): You can't get it out. Public opinion in your communities won't let you.

Hon. Mr. EULER: That is one of the disadvantages of being a member of parliament.

Hon. Mr. MANION: At the same time, it would not be considered wise, when these things are only really under consideration, and may never be carried out.

Mr. HANSON (*York-Sunbury*): I prefaced my statement with that very thing. I want to be fair.

The CHAIRMAN: The trouble is if a thing is done before the community has a chance of making a protest or giving their opinion, then it is a hardship.

Hon. Mr. MANION: I think I am right in saying that the Board of Railway Commissioners, before they would give any permission for the abandonment of a line, would require that the community affected would have to be notified.

Hon. Mr. FULLERTON: Every person has to be notified, to give them a reasonable opportunity.

Mr. McGIBBON: It has not been done with reference to trains.

Hon. Mr. FULLERTON: That is a different thing.

Mr. FRASER: Your position, Mr. Fullerton, is this. You will, in the ordinary course of your duties, submit that to the Railway Commission and then the public will have an opportunity to discuss it.

Hon. Mr. FULLERTON: Exactly.

Hon. Mr. MANION: I think it is a fact that, under the Railway Act, the community must be notified in due time.

Hon. Mr. FULLERTON: That is quite correct.

The CHAIRMAN: I have invited the members to give me any questions that they want to ask, if there is any information they want, now is the time to get the questions in.

Mr. FRASER: There is just one question I had in mind. I have not got it written out, but I can give it in a general way, so that the officials may be able to prepare the information. In the session of 1931 we had a great deal of discussion as to the salaries and expenses of executive officers. I should like to have a comparative statement of the salaries and expenses of the executive officers at the present time, as compared with the statement that was made at the session of 1931.

The CHAIRMAN: I think that is a reasonable question. We had only under consideration the president at that date, and were promised that certain reductions were going to be made. I have never since been able to see what they are. I think it would be a good thing to check up and see just what has been done.

We will adjourn now and meet to-morrow morning at eleven o'clock.

The committee adjourned at 1.05 p.m., to meet on Thursday, June 7, at 11 a.m.

SESSION 1934
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

THURSDAY, JUNE 7, 1934

WITNESSES:

- Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.
- Mr. J. E. Labelle, Trustee, Canadian National Railways.
- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals.
- Mr. T. H. Cooper, Canadian National Railways.
- Mr. O. A. Matthews, of Geo. A. Touche & Company, Accountants and Auditors, Toronto, Ontario.

MINUTES OF PROCEEDINGS

Room 231,

June 7, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, in accordance with notice issued, met this day at 11 o'clock, a.m., Mr. Chaplin, the Chairman, presided. The following members were present:—

Messieurs Beaubier, Bothwell, Cantley, Chaplin, Duff, Euler, Fiset (Sir Eugene), Fraser (*Cariboo*), Geary, Gray, Gobeil, Hanbury, McGibbon, Mac-Millan (*Saskatoon*), Manion, Price, and Stewart (*Lethbridge*).

In attendance were: Hon. C. P. Fullerton, K.C., Mr. F. K. Morrow, Mr. J. E. Labelle, K.C., Trustees Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. A. V. Franklin, Auditor, Department of Railways and Canals; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Department of Finance, and Mr. O. A. Matthews, of Geo. A. Touche & Company, Accountants and Auditors.

The Chairman suggested that the Annual Report of the Canadian National Railways for 1933 be discussed.

The following witnesses were called and examined:—

Mr. S. J. Hungerford, President, Canadian National Railways.

Hon. C. P. Fullerton, Chairman of Board of Trustees, Canadian National Railways.

J. E. Labelle, K.C., Trustee, Canadian National Railways.

Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals.

Mr. T. H. Cooper, Canadian National Railways.

Witnesses retired and the Committee adjourned until 4 o'clock, p.m., this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m.

Mr. O. A. Matthews, of Geo. A. Touche & Company, Accountants and Auditors, was called and examined.

The Committee adjourned at 5.25 p.m., to meet again at the call of the Chair.

J. P. DOYLE,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS

Room 231,

June 7, 1934.

The select standing committee on Railways and Shipping met at 11 o'clock, Mr. Chaplin, the chairman, presiding.

The CHAIRMAN: Gentlemen, we have a quorum. If you care to discuss and examine the report of the Canadian National system for the year ended 31st December, 1933, the officers are here and can probably answer any question you desire to ask. I am not going to wade through this report; it has been published, and you all have copies; and if there are any questions that any member of the committee wants to ask now is the time to do it.

Mr. GEARY: Mr. Chairman, the general report on pages 1 to 7 does not say anything about the physical condition of the road, does it?

Hon. Mr. FULLERTON: I think that is in the auditor's report.

Hon. Mr. MANION: Do you want a statement on the physical condition?

Mr. GEARY: There is nothing in the report.

Hon. Mr. MANION: The officers say it is in the auditor's report. I think it might be a good idea to have Mr. Hungerford make a statement on the general physical condition and maintenance of the road as to the upkeep and general conditions. There seems to be a general tendency on the part of all roads on the continent to-day to defer their maintenance a good deal.

Mr. HUNGERFORD: That is perfectly true. Obviously, with the great reduction in business it has been necessary to curtail maintenance expenditures, and, on the other hand, the property is not being used to the same extent; but in comparison with other railroads our reductions have not been greater—the physical condition of the property, apart from the equipment, I think, is quite good enough for all traffic requirements.

Hon. Mr. MANION: For good efficiency in every way.

The CHAIRMAN: What do you mean by "apart from equipment"?

Mr. HUNGERFORD: I was going to discuss equipment separately, sir. We have gone on the general principle of trying to keep our main lines in first class condition and the lesser important lines in a condition appropriate to cater to the traffic that has to be handled on them. I think that is based on sound economics.

In reference to equipment, it is quite true we have a considerable amount of equipment that will ultimately require repairs if there is an increase in business; but we have maintained our equipment—a sufficient amount of equipment to take care of all traffic requirements. In that respect we have gone probably further than most railways have on the North American continent.

Hon. Mr. MANION: How many wooden cars have you still?

Mr. HUNGERFORD: About 30,000.

Hon. Mr. MANION: I thought there were about 30,000.

Hon. Mr. EULER: I see in connection with this matter on page 6 of the annual report under the heading "Capital Expenditure" the third paragraph:—

Retirements of equipment during the year consisted of 20 locomotives, 3,590 freight cars, 10 passenger cars and 232 work equipment

units. The original cost of this retired equipment was \$4,688,838 of which amount \$3,974,012 was charged to the years' operating expenses and salvage value was charged to material account.

The thought that occurs to me is that although the depreciation there took place over a long period, apparently it was all charged to the one year. Is that correct?

Mr. GEARY: That is what the Canadian Pacific does, does it not?

Hon. Mr. EULER: You would write off depreciation from year to year, would you not?

Mr. HUNGERFORD: No.

Hon. Mr. EULER: Although the depreciation or wearing out process took place over a period of perhaps ten or twenty years, almost \$4,000,000 was charged against the income of the company or the revenue account of the company I should say—all in the one year.

Mr. HUNGERFORD: Yes.

Hon. Mr. EULER: That is a pretty heavy burden for one particular year, is it not?

Mr. MCGIBBON: Depreciation, even at 2 per cent, would be about \$25,000,000.

Mr. HUNGERFORD: I think that question has been discussed before this committee several different times. There is a difference in practice between the United States and Canada in that regard. The American roads include depreciation on their equipment; the Canadian roads never have.

Hon. Mr. MANION: The Canadian roads take care of it as they go by replacements?

Mr. HUNGERFORD: As you retire a unit of equipment you charge the whole value of it, less the salvage, to operating account.

Hon. Mr. EULER: This might be the case if it happened in any one year. One year you might find it necessary to make slight retirements and the following year you might have twice as much which would not leave the railway position the same with regard to net income.

Mr. HUNGERFORD: That is possible to a degree, but, as a matter of fact it will go along.

Hon. Mr. EULER: In a period of years it would average up, but from year to year it, perhaps, would not be an altogether correct representation of the fact.

Mr. HUNGERFORD: We are going along on a pretty uniform basis. As we get into equipment which was purchased in later years, obviously we retire, generally speaking, the oldest equipment first, and the older equipment was bought in a period of low prices. Then we gradually get into a period in which the prices were somewhat higher—it was more expensive when it was bought.

Hon. Mr. EULER: You say that is not the practice in the United States. Is it followed generally in Canada?

Mr. HUNGERFORD: Yes.

Mr. GEARY: That is in the railway company—not, for instance, in a utility like the telephone companies?

Hon. Mr. EULER: Is it the same system as far as the Canadian Pacific is concerned?

Mr. HUNGERFORD: Substantially so in principle. There is a little variation in detail.

Hon. Mr. MANION: Mr. Hungerford, I am being approached continually—and I presume this is the experience of other members and other ministers—by the equipment companies, the car companies and the locomotive companies

particularly. They have been pretty badly hit by the depression because neither of the railways have been replenishing their equipment. Would there be any excuse—I mean in a general way—at the present time for going into equipment building? Suppose, from an economic standpoint it could be shown to be useful—that you could use the equipment—and suppose—I am only asking you a question and I would rather this were not quoted in general, although it is not important—suppose there was a decision to assist to a certain degree in the cost of it, would it be good economics, good railway economics, to go in for the construction of equipment in either locomotive or railway cars.

Hon. Mr. EULER: Or railway ties.

Hon. Mr. MANION: They buy ties only as they need them.

Mr. HUNGERFORD: That is really a very complicated question.

Mr. CANTLEY: Before Mr. Hungerford answers that question, I desire to ask some questions bearing on the same matter. I think if I put them now it will save a lot of time. I was going to ask Mr. Hungerford: what is the position of the motive power to-day and if he could give us the number of locomotives carrying a boiler pressure of 200 pounds or over and equipped with super heaters. What advantage would accrue if the railway obtained, say, 40 or 50 of the newer type of locomotives carrying boiler pressures of some 400 to 450 pounds? I would like Mr. Hungerford to be good enough to give his views in regard to those two points which have a bearing on the question the Minister asked a moment ago.

Mr. HUNGERFORD: To answer your first question, I do not think we have any detailed information available here at the moment. We can get it. With regard to the second question, it is obviously a very complicated economic problem, and we are engaged in studying the whole question at the present time. We have reached no conclusion. A good deal depends on what is going to be the trend of traffic. If traffic is going to increase materially it is quite possible that that policy would be justified.

Mr. CANTLEY: What is your idea as to how high you could go on working pressure?

Mr. HUNGERFORD: That is a difficult question to answer; that has not been established.

Mr. CANTLEY: I know it is difficult. What I want to get at is the idea in your mind in regard to that matter. I have ideas of my own.

Mr. HUNGERFORD: When you come to extremely high steam pressures you run into high expense in original cost, and it is not fully decided yet whether that additional cost is justified or not. The prevailing practice is to build locomotives carrying from 250 to 275 pounds per square inch, and that is recognized as good economic practice. It is possible we would be able to go farther, but the evidence is not yet conclusive.

Mr. DUFF: What is the condition of your equipment—cars and engines and all other equipment—as compared to what it was last year and the previous year? In other words, have you spent as much money in order to keep the equipment at the same standard as it was in previous years, and before the depression came?

Mr. HUNGERFORD: That all depends. We are not spending as much money. There is no occasion to spend as much money. We are not handling as much traffic.

Mr. DUFF: With regard to the upkeep of the equipment you have on hand, are you keeping that equipment up to the same standard as it was kept before the depression?

Mr. HUNGERFORD: So far as the individual unit is concerned, yes, we are doing just as good; but we are not repairing as many units of equipment because the traffic requirements are such that we do not need as many units.

Mr. DUFF: What becomes of the equipment that you are not using?

Mr. HUNGERFORD: We simply store it, and as soon as there is a traffic requirement we repair it.

Mr. DUFF: I notice that some of the equipment is out in the open. I suppose you call that storage?

Mr. HUNGERFORD: Yes.

Mr. DUFF: It looks to me as if it is not improving as far as I can see. It is certainly not appreciating in value.

Mr. HUNGERFORD: Probably not. All the cars are stored outside.

Mr. CANTLEY: It would require a big shed to hold them.

Mr. DUFF: I know it would. Does the upkeep of your roadbed compare favourably now with its condition before the depression?

Mr. HUNGERFORD: I do not know just how to answer that.

Hon. Mr. MANION: Just before you came Mr. Hungerford said he considered the upkeep of the road to be quite sufficient to maintain efficiency of all kinds.

Mr. DUFF: I heard that, doctor. Mr. Hungerford, are you buying as much ballast or ties or rails for your different lines as you were previously?

Mr. HUNGERFORD: No.

Mr. DUFF: Have you bought any?

Mr. HUNGERFORD: Oh, yes.

Mr. DUFF: What quantity of rails have you bought in the last two years?

Mr. HUNGERFORD: Well, we will have to prepare a statement on that. I do not remember the figures.

Mr. DUFF: Have you used all the rails that you have purchased?

Mr. HUNGERFORD: No.

Mr. DUFF: What became of them?

Mr. HUNGERFORD: We have them in stock at certain places.

Mr. DUFF: Why did you buy them before they were required?

Mr. HUNGERFORD: Well, we were following a program of laying heavier rail on transcontinental mainlines in order to secure lighter rail for the completion of new lines. When the new branch line program was suspended there was no occasion to do that. The only way we could get rail for new branches was to take the old rail out of the main line and we were pursuing that policy for several years.

Mr. DUFF: I suppose you would not have the dates when you purchased those rails and the prices paid for them?

Mr. HUNGERFORD: No. I can get all that if you want it.

Mr. DUFF: Would you be good enough to get that?

The CHAIRMAN: We will ask for that.

Hon. Mr. MANION: There were two purchases of rails made. The orders in council have already been tabled in the House and they are on record. There were two purchases of rails, and I presume these are the ones that Mr. Hungerford refers to. They were purchased at the request of the government and the government itself is carrying them until they are utilized by the railway. One purchase was made down in the Maritimes and the other was made at the Algoma plant; but the Orders in Council for these have been tabled. The point I wish to make is that while the railway purchased it in a sense, the purchases are being carried financially by the government as an unemployment relief measure, and they are being carried financially by the government until

the railway takes them and they absorb them into their costs when they take possession. Am I not right?

Mr. HUNGERFORD: That is substantially so.

Mr. DUFF: That is the reason why I am asking the question. I have seen that Order in Council and there was some discussion in the House about it, and I would like to know Mr. Hungerford's views as to why it was necessary to purchase millions of dollars worth of rails which the railway did not need. I would like a statement from him as to the quantities and dates and the reason for taking them over.

Mr. CANTLEY: The reason was to relieve unemployment at the time.

Hon. Mr. MANION: They have not taken them over. There are a lot of them not taken over. They are in storage with the companies that made them until they are taken over. That is my recollection of the matter. Until they are taken over the government is carrying them.

Mr. GRAY: What is the percentage of the Algoma purchases? I know something of that, because the Prime Minister referred to it in regard to Mr. Duff's statement in the House. There have been some rails laid from London west towards Strathroy. I do not know how far west. The Prime Minister made the statement that that was part of the Algoma Steel program. Now, how much of the order that was given to the Algoma Steel company has been used? I think that is what Mr. Duff is trying to get at. Now, the government are carrying that huge order, as the Minister said, and the interest upon this order. How much of it has been used? That is the information we could not get from the House.

Mr. HUNGERFORD: I think you had better let us prepare a statement. It is impossible to say from memory.

Mr. DUFF: Yes, that is all right. You say that some of the rails which you had on hand were moved around from one section to another. Would you mind telling me what proportion of the rails that were purchased and paid for belong to the Sunnybrae-Guysboro railway?

Mr. HUNGERFORD: I do not think there were any rails purchased for that railway at all.

Mr. DUFF: I understood there were.

Mr. HACKETT: They went into the museum.

Mr. DUFF: The line has gone into the museum, but the rails were all right. Would you mind giving us your views in regard to the abandonment of branch lines or different main lines which have been abandoned or are in contemplation of being abandoned? What is your policy in that regard?

Mr. HUNGERFORD: That is not fully decided on yet.

Mr. DUFF: Have you made any abandonments in the road during the last twelve months?

Mr. HUNGERFORD: Not exactly.

Mr. DUFF: You have not abandoned any?

Mr. HUNGERFORD: No.

Mr. DUFF: Have you any branch line policy laid down so far?

Mr. HUNGERFORD: In what respect?

Mr. DUFF: In respect of branch line railways.

Mr. HUNGERFORD: In regard to the abandonment of branch lines?

Mr. DUFF: No, with regard to building or finishing branch lines which were started, or building new branch lines?

Mr. HUNGERFORD: We are doing nothing along that line at all.

Mr. DUFF: You are neither completing branch lines started or building new branch lines?

Mr. HUNGERFORD: No.

Mr. DUFF: Another question, Mr. Hungerford: Does the upkeep of your road bed compare favourably now with what it was before the depression?

Mr. HUNGERFORD: I do not know just how to indicate that.

Hon. Mr. MAXION: Just before you came in, Mr. Hungerford spoke about the condition of the road bed the other day, and you said in effect that the upkeep of the road bed was quite sufficient to keep it efficient.

Mr. DUFF: I know, I heard that. Are you buying as much ballast, ties and rails for the different lines as you were previously.

Mr. HUNGERFORD: No.

Mr. DUFF: You are not.

Mr. HUNGERFORD: No.

Mr. DUFF: Have you bought any?

Mr. HUNGERFORD: Yes.

Mr. DUFF: What quantity of rails have been bought in the last two years?

Mr. HUNGERFORD: I would have to prepare a statement on that.

Mr. DUFF: I would ask you to prepare such a statement. Have you used all the rails you purchased?

Mr. HUNGERFORD: No.

Mr. DUFF: What has become of them?

Mr. HUNGERFORD: We have them in stock.

Mr. DUFF: Why did you buy them before they were required?

Mr. HUNGERFORD: Well, we were following a program of laying heavier rail on the transcontinental line using the lighter rail taken from that on the new branch lines. When building of new branch lines was held up our program broke down in connection with that.

Mr. DUFF: Just on that point: in connection with the abandonment of branch lines, are you working in co-operation with the Canadian Pacific with regard to that particular policy.

Mr. HUNGERFORD: So far as the functional grouping of lines is concerned, we are working in collaboration with the Canadian Pacific; that is, where we have a line that runs parallel to a C.P.R. line, and where we have substantially the same equipment, we are discussing with the Canadian Pacific arrangements for the abandonment of such lines.

Mr. DUFF: You are doing that on a fifty fifty basis? You are not taking more than the C.P.R., and the C.P.R. are not taking more than you are?

Mr. HUNGERFORD: As nearly as it is possible for us to do it.

Mr. DUFF: You are not giving away any of the rights of the Canadian National in that connection?

Mr. HUNGERFORDS Oh no.

Mr. GEARY: I would suggest, Mr. Chairman, that we might do the same as we have done before: take up these different sections, then we would reach our question with respect to capital expenditures, maintenance of way, etc., as we come to them. It seems to me that would probably clear it up as we go along, as we take the different items of the different accounts. I do not know whether you want the balance sheet, the profit and loss statement, or the income statement; possibly we might go to maintenance of way on page 16.

The CHAIRMAN: I want to be pretty free and allow any member to ask any question, even if he does not keep it quite in order.

Mr. GEARY: Quite so.

The CHAIRMAN: I do not want to have any member tied down so that if something is overlooked, he could not get the information he wants. It is absolutely immaterial to me how you approach the situation. I am willing to let the committee have its own way as far as discussing anything is concerned.

Mr. HANBURY: I would suggest as general procedure we might consider the reports of the trustees as contained in their annual report, starting on page 4; that will probably bring out questions as we proceed.

The CHAIRMAN: Very well, we will start with page 4. Are there any questions arising from that section? If not, we will move on to page 5; that takes in revenues and operating expenses. Then on to page 6.

Mr. FRASER: On page 4 the last paragraph on the page refers to a question I asked yesterday, or the last day on which the committee sat: in addition to staff reduction, further salary revisions and deduction from basic rates of pay were put into effect in 1933. These additional pay reductions for the present average number of employees are at the rate of \$5,200,000 per year. However, that refers to employees, it does not apply to officials. I was going to ask Mr. Fullerton now whether or not he has the return I asked for.

Hon. Mr. FULLERTON: The question asked was: A comparative statement of the salaries and expenses of executive officers at the present time as compared with one made at the session of 1931. The answer to that is: The list of executive officers in 1931 receiving \$15,000 or more numbered 36, apart from the President and Chairman, with total compensation of \$677,500; and the personal expenses in 1930 amounted to \$51,461.78. At the present time six officers, including the president, receive \$15,000 or more with a total yearly compensation of \$117,800. Their personal expenses in 1933 amounted to \$5,852.24.

The CHAIRMAN: Does that information, which has been given by the Chairman of the Board, answer your question.

Mr. FRASER: Well yes, it is hardly what I expected to get. My recollection is that during the three years I have been checking this up, there were included in that group some 93 officials; now you say there are only 36, or 38 there.

Hon. Mr. MANION: The 36 referred to there are those who received \$15,000 or over.

Mr. FRASER: What I had in mind all the time, although I have not checked it up, was that there were 93 officials.

Hon. Mr. MANION: That was for \$10,000 and over.

Mr. FRASER: All right, I am satisfied.

Hon. Mr. MANION: Maybe, in that regard, since Mr. Fraser has brought up this point, there is one thing I would like to have emphasized as I am not sure that the committee got it as clearly, possibly, as they should have. I think it is a very important point, one that should be known particularly to the men on the road; because I know that as Minister I continually receive wicked complaints from the men themselves, claiming that the high-up officers are being protected by the management themselves, not by me and that they have substantial benefits. These figures which have been given are rather interesting. I would like to repeat them, if I may. The list of executive officers in 1931 receiving \$15,000 or more number 36, and now that is cut down to six from 36 receiving \$15,000 or over, the salaries were \$677,500 at that time and it is now \$117,800; and expenses have been cut down from over \$51,000 to \$5,800. I emphasize that because so many men on the road are complaining bitterly that they are not getting a fair deal—that the officers of the road are getting all the cream, so to speak. I would be glad to have Mr. Fullerton give us the figures with respect to those receiving \$10,000 or over, in the same way as he has given us these.

Mr. FRASER: What I had in mind when I asked the question was the figure of 93.

Hon. Mr. MANION: That was, over \$10,000.

The CHAIRMAN: That is certainly a very remarkable change, and I think those figures should be elaborated somewhat, so as to show the whole picture.

Mr. DUFF: Are these officials at the head office in Montreal, or are they scattered all over the country?

The CHAIRMAN: These are all the employees, I understand.

Mr. GRAY: Did I hear you correctly; that these are the officials receiving over \$15,000 a year?

Mr. HANBURY: I do not think this is anything to be proud of, I certainly think we should have a class of men in charge of operations who would be entitled to more money than what is being paid evidently.

The CHAIRMAN: You certainly can't have it both ways, that is one thing sure; you have complaints on the one hand of extravagances, and on the other we hear complaints about these economies.

Mr. HANBURY: I did not complain about extravagances.

The CHAIRMAN: No, no; you did not, I am not speaking personally.

Mr. GRAY: This leads me back to something I said last week, and which I felt was not considered with the weight to which it was entitled—back again on page 4—and that is with respect to the saving and operating expenses on this road in 1933 as compared with 1932. I made the statement then that it was due largely to the displacement of labour, and the report of the board bears me out. At that time I quoted certain figures from the "Financial Post." I have now analysed the report and I find that I am substantially correct in connection with that. I will call the attention of the committee to page 4, railway operating expenses; there we have the figures on the working results, showing the railway operating expenses decreased by some \$12,000,000. That was taken out of the employees. In 1932 we have some 76,000 employees, in 1933 some 70,000 employees; employees' compensation in 1932 amounted to some \$106,000,000, and in 1933 it amounted to some \$95,000,000. Then we come over here to page 5—and we find that correctly stated, there is nothing misleading about the report in any shape or form—we find that the operating expenses reduction of some \$12,000,000 odd is due to labour displacement of some 81 per cent.

Mr. MCGIBBON: It could not be anything else.

Mr. GRAY: Of course it could not be anything else; but what makes me just a little annoyed is that there are statements going out on this road—and I champion this road as against any man in the country—

Mr. MCGIBBON: Don't champion it unwisely.

Mr. GRAY: —That we are saving so much money; and the minister has been one of the foremost from the floor of the house in making statements as to what we are doing; but we are doing it at the expense of labour. We are displacing labour, we have displaced 6,000 odd railway employees; what are you doing with them; you are taking them perhaps off the hands of the railway although I might have something to say with respect to that condition, where is the relief there? They have been placed upon the railways as a burden during the past year. If we were not afraid of the business situation they would have been displaced long ago, and you have compelled the railways to keep them employed as a certain measure of relief. I haven't any great fault to find with that, provided that we as a country absorb the burden; that burden should not have been placed upon the Canadian National Railways. Now, in spite of that situation, we do not see that in this picture; it is there and now we know it and

the country should know it, that the Canadian National Railways in the first instance should not have been burdened with extra employees, that if they were a straight business firm and not a government-owned railway they would not have been employed; that is a burden that has been placed upon their shoulders which should have been absorbed by the people of Canada, just the same as any other unemployment measure. That is point 1.

Then point No. 2: in spite of that you have still reduced it by some 6,000 odd; and that is a saving that you create by the displacement of labour in this country. And then we go out and say, look at what we have saved. You have simply taken it out of wages. Let us meet the situation as we see it, and not try to hide it.

Hon. Dr. MANION: Since Mr. Gray has referred to my statements about special savings, I never talked about labour savings, I talked about other substantial economies. With respect to labour savings I have only this to say in reply: it is obvious that if you cut down your business, as it is shown here from \$161,000,000 in 1932 to \$148,000,000 in 1933, you naturally displace labour; that is obvious, isn't it.

Mr. GRAY: Certainly.

Hon. Dr. MANION: In other words, the railway would be ruined if they hired the same number of men to do \$13,000,000 less business. Nobody questions that. There must be a displacement of labour if the business is to go on. As to the point raised by my friend Mr. Gray, I have no objection to that statement either; except where he brings me into it. The savings to which I have been making reference from time to time have not been particularly labour saving. I will show the committee now the actual figures with respect to the railway, and they will show that I am right. In 1931 the gross operating revenues of the railway were \$200,000,000, and the net was \$1,000,000. In 1934, get that, the gross operating revenue was \$148,000,000, the net \$6,000,000. In 1933 the gross operating revenues were \$148,000,000 odd, and that figure is exactly \$52,000,000 less than in 1931—well now, we come to what Mr. Gray says; if the same amount of labour had been retained, net revenue of \$6,000,000 last year, there would have been a deficit of anywhere from fifteen to sixteen or twenty million in that year.

Mr. GRAY: Where do you find those, sir.

Hon. Mr. MANION: In the figures of the railway.

Mr. GRAY: I want to see it here; I would like to have it.

Hon. Mr. MANION: You could put this down, because I am giving you the facts.

Mr. GRAY: Fortunately it is being reported.

Hon. Mr. MANION: I am giving facts; my honourable friend can get them any time he likes. I say the gross operating revenue of the railway in 1931 was \$200,000,000 and the net was \$1,000,000; and last year the gross was \$52,000,000 loss, and the net \$6,000,000; and that surely shows the special economies that were made.

Mr. GRAY: Will the minister—I know he is fair—look at the bottom of page 5; that there was in round figures a reduction in operating expenses of \$12,000,000 or 7·99 per cent.

Hon. Mr. MANION: And let me just say in regard to that, that the economies that were made last year by the railway were largely labour.

Mr. GRAY: Of course they were.

Hon. Mr. MANION: But, just a minute my friend; you are dealing with one year, we have been handling this as far as the government is concerned for four years; all the great economies were made two years ago.

Mr. GRAY: All right.

Hon. Mr. MANION: The great economy in officials, particulars of which Mr. Fullerton gave us in his statement this morning—a reduction in those receiving \$15,000 a year or more, from 36 in 1931 to 6 in 1933. I do not want to go over that whole thing again. Every one of them are facts. I can prove my statements. We have had a saving in connection with high-up officers of over a million dollars a year. There has been a saving in advertising—I have forgotten the figure just at the moment. There has been a saving in radio, which has been cut out altogether. There has been a saving in all sorts of things of that kind. I make the statement now which I made in the House, that this railway is doing better by \$15,000,000 to \$20,000,000 a year, so far as operating costs are concerned by reason of economies of that kind, and still giving the same service.

Mr. DUFF: Is not that partly due to the fact of reduced revenue?

Hon. Mr. MANION: Not these special economies.

Mr. GRAY: I intend to hold the Minister to exactly where he has held me; and ask the Chairman to hold us as he has, and I think rightly so, to the report before us. I am dealing with the report of this committee, and I am dealing with that statement as part of the 1932 economy. The Minister is getting away from that altogether in some wide statement in the very able manner which he has, and using these broad remarks; and so I am going to hold him to the statement that we have before us.

Hon. Mr. MANION: Yes, but you better stick to the statement you have before you yourself, that is the point.

Mr. GRAY: I had.

Hon. Mr. MANION: No, you have not; you are dealing with the statement I made in the House of Commons about the savings on this railway in the last four years.

Mr. GRAY: Very well, I would be perfectly willing to withdraw any remark I made with respect to the words the Minister said in the House, and still stick to this if he will. We will then both be on common ground, he will admit that the savings of last year is due to an 81 per cent displacement of labour, as has just been shown.

Hon. Mr. MANION: Then don't criticize my statement with regard to the past four years.

Mr. GRAY: All right then, we are both equal.

Mr. McGIBBON: I wish to explain to Mr. Gray, I thought that he was really interested in economies, and trying to bring this road out of this.

Mr. GRAY: I am, but not by making such a displacement at one point and not doing it at another.

Hon. Mr. MANION: We are criticized though when we get them.

The CHAIRMAN: If labour is not earning money why have you got to employ it, that is the point.

Mr. McGIBBON: Let me remind you of this fact; there are two great factors in running a railway so far as getting operating profits are concerned. One is the interest on your debt, the other is labour, including operating expenses. Now, if the debt of this railway had not been boosted about a billion dollars from 1923 to 1930, the management would have had more labour, they would not have been so hard-pressed for money, and they would not have had to dismiss so many men. The crux of this thing goes back to the financial difficulties and that is something that Mr. Gray has overlooked apparently. The higher you lift up your operating cost and interest, when you come to a time when economy has got to be exercised, there is only one place you can exercise

it surely, and that is labour. And that is one of the great things that this management, to my mind, has been faced with; but that goes back, and don't forget it, beyond the inauguration of this company.

Hon. Mr. EULER: I understood you to say that since 1923—possibly I misunderstood you, but I just wanted to get it cleared up—the liabilities of the railway, the deficit, increased by a billion dollars.

Mr. MCGIBBON: I said the debt was increased, you will find it in the report, \$912,000,000—I said, speaking roughly, a billion.

Mr. FRASER: I think the answer to Mr. Gray's criticism is contained on page 2 of the statement that was made yesterday by the Chairman of the Commission; at least it appears so to me. Here is what is said in the report: "Unfortunately economies cannot be made without the displacement of labour. Out of every dollar spent in operating the railways, 63 cents is a direct payroll expense." I fail to understand how you are going to reduce the cost of operating the railway, without reducing the expense of labour when labour takes up 63 per cent of the total cost of running a railway.

Mr. GRAY: Let us grant that, let us agree on what Mr. Fraser has said. I doubt that that is the only way in which economies can be made, or in which we can save in this country; but I am not going to get into a political argument as to the whys and wherefores; but if that is the only way in which we can economize in this country, by the displacement of labour, taking it out of the railway and putting it back on someone else, then we are in a very bad state in this country.

Mr. FRASER: I do not think that is fair criticism.

Hon. Mr. MANION: Should the railways keep the same number of men when they are doing \$13,000,000 less business?

Mr. GRAY: I do not suggest that.

Hon. Mr. MANION: I do not see the point you make at all.

Mr. GRAY: There is the point to my argument, however.

Hon. Mr. MANION: I do not get it.

The CHAIRMAN: A lawyer might find it easy to do that, a business man could not.

Mr. GRAY: That might be perfectly true, Mr. Chaplin; but I cannot say that as a result of the situation we find ourselves in, it is a thing that we should be particularly proud of.

The CHAIRMAN: I do not think any of us are proud of it.

Mr. GRAY: The fact that we have to say that our economies are affected by the displacement of labour.

Hon. Mr. MANION: That is only last year, Mr. Gray; it was not true of previous years. Great economies, necessary economies, were made by the displacement of high-up officials that were not necessary. If you will allow me to I would like to ask Mr. Hungerford: Mr. Hanbury suggested that it was nothing to be proud of that there were so few officials now getting \$15,000 a year or over; might I ask you, Mr. Hungerford, as probably the oldest railway man in the room, have you sufficient highly paid officials on your staff to operate the railway efficiently at the present time.

Mr. HUNGERFORD: I think our official situation is sufficient for the present volume of traffic.

Mr. HANBURY: I would like to ask Mr. Hungerford whether they are being paid on a basis comparable with other Class A railroads; and whether you have an equal number of higher paid officials to that found on other Class A roads.

Mr. HUNGERFORD: It is very difficult to make a comparison of that kind; conditions vary widely and it is exceedingly difficult to make such a comparison.

Mr. HANBURY: Perhaps, Mr. Hungerford, you can give us the relationship of the salaries of your higher-paid officials to your gross revenue; and perhaps you can show how that compares on that basis with other Class A roads.

Hon. Mr. MANION: Why not compare it with the net revenue.

Mr. HANBURY: I said the gross revenue.

Mr. HUNGERFORD: Our organization at it stands is just about the type of organization usual to large railway systems. I do not think that there is any material difference, quite apart from salaries, which we do not know. As far as official positions are concerned, they correspond very closely with the organization of other railroads.

Hon. Mr. EULER: Just to clear up a point I want to refer back again to a statement made by Dr. McGibbon a few minutes ago, that the debt of the railways has been increased within the last ten years by (in round numbers) a billion dollars; I would like to ask how much of that is by way of capital expenditure.

Mr. MCGIBBON: About \$450,000,000.

Hon. Mr. EULER: Then the other sum would be around \$600,000,000.

Mr. MCGIBBON: Quote me correctly, I said \$912,000,000.

Hon. Mr. EULER: I am speaking from memory.

Mr. MCGIBBON: I said \$912,000,000; half capital and half deficit.

Hon. Mr. EULER: Is that correct, I would like to ask that?

Mr. MCGIBBON: Ask Mr. Fullerton.

Hon. Mr. EULER: I am asking.

Mr. FULLERTON: In general terms, I would say yes.

Mr. EULER: Then in that deficit you are including all the interest which is on the old accrued deficits and is already on record in the consolidated fund of the Dominion of Canada, is it not?

Mr. MCGIBBON: In operating debts.

Mr. EULER: Because, I do not know where I saw it, whether it was in this report or not, I am trying to find out, but memory tells me that a statement appeared somewhere in this document that in the last ten years the actual deficit is something like \$25,000,000; am I right in that? I understand that the actual deficit, the annual deficit for each of the last ten years is something like \$25,000,000.

Hon. Mr. MANION: That is only to clear that up.

Mr. EULER: That is all I am trying to do.

Mr. HUNGERFORD: That is shown on page 18; it shows that \$25,636,754. I just wish to point out that that does not include any interest owing to the government.

Mr. EULER: I am just trying to differentiate there.

Mr. HUNGERFORD: We don't want to get a mis-statement of the facts.

Mr. EULER: Exactly so; my contention is this, so far as the railway itself is concerned on account of the last ten years the increase to the deficit is about \$250,000,000 on the basis of \$25,000,000 a year; and then capital expenditures are in the neighbourhood of \$400,000,000 or \$500,000,000; is that correct—that falls about \$300,000,000 short of that billion the Doctor was talking about.

Mr. MCGIBBON: That only falls \$200,000,000 short of the \$900,000,000 odd that I said.

Mr. HANBURY: I would like to refer again to the salaries paid to the higher officials of the railways, and I would like to ask Mr. Fullerton the amount paid.

Hon. Mr. FULLERTON: At the present time, and this is the evidence which I gave, the total amount received by officers being paid \$15,000 a year or more, their total yearly compensation, amounts to \$117,800; and their travelling expenses for 1933 amounted to \$5,852.24.

Mr. HANBURY: I understand, Mr. Chairman, that on practically every Class A railroad in America the President at least receives from \$75,000 to \$125,000 a year.

The CHAIRMAN: That was three years ago.

Mr. HANBURY: All right.

Hon. Mr. MANION: I have right here a statement from the Wall Street Journal.

Mr. HANBURY: I am making that statement, practically every President of a Class A railroad received from \$75,000 to \$125,000 a year. Here we have six officials guiding this Canadian National Railways receiving less than the President of a Class A railroad receives.

The CHAIRMAN: Yes, and about half of what our old President received.

Mr. HANBURY: There is nothing wrong with what our old president received, I do not think he was overpaid; however, that is a matter of opinion. I would request from the officials of the railways that they give us a comparison with other Class A railroads in America; and I would like to be provided with a statement showing a comparison with these Class A roads.

Hon. Mr. FULLERTON: I doubt very much if we can get it.

Mr. HANBURY: We have got such information in the past.

Hon. Mr. MANION: Would you permit me to give you two; I have here a copy of a Wall Street Journal—

Mr. HANBURY: Just a minute, I quite realize—

Hon. Mr. MANION: All right, I will give it afterwards.

Mr. HANBURY: I quite realize, and I think the members of this committee will too, that probably that figure of \$117,000 could be further cut down; because there are not very many jobs going around to-day and a lot of these officials would take considerably less rather than starve—they would probably take another 50 per cent reduction in salary. However, that is not the point I want to make. We have a business here doing a turnover of \$142,000,000 last year, and we expect a 20 to 25 per cent increase this year, and yet we are giving less than 1 per cent in salaries to our higher officials.

Hon. Mr. MANION: No, no; these are merely the higher officials receiving over \$15,000, a year.

Mr. HANBURY: We are giving less than one per cent of our total revenues to our executives.

Hon. Mr. MANION: Oh no, there are a lot of executives getting less than \$15,000 a year.

Mr. HANBURY: That is the impression being given to this committee.

Hon. Mr. MANION: I don't want that to be given, I want that to be corrected.

Mr. HANBURY: I asked for that information; I think we should compare the situation we have on this railway with that which obtains on other roads of the same class.

Hon. Mr. MANION: I have here information as to what officers of other roads are receiving. It is taken from the Wall street journal, so I presume it is correct, it applies to two railroads in the United States. The business of these roads, I think, compares with the Canadian National. This shows that on the Norfolk Western Railway the President, Mr. A. C. Needles receives

\$60,000; and here is the Boston & Maine Railroad, and I see that Mr. E. S. French, Vice-President, receives \$40,000.

Mr. HANBURY: Perhaps the Minister will tell us the amount of line that these railways operate.

Hon. Mr. MANION: It doesn't matter about the mileage, it is the economics which matter. May I say a word in regard to that. I do not agree with Mr. Hanbury's idea of mileage. If a railway like the Canadian National is losing money to the extent that it is costing the people of Canada something like \$60,000,000 a year, as we have been doing the last few years—

Mr. GRAY: Adding to the public debt.

Hon. Mr. MANION: It cost us in 1931 \$112,000,000.

Hon. Mr. EULER: If you wiped the railways right off the face of the earth you would still face a heavy deficit—

An Hon. MEMBER: There would still be a charge against the old dead horse.

Hon. Mr. MANION: My attitude is—and I am taking a different one from Mr. Hanbury because I have a right to my own opinion—when a railway is costing the people of Canada in interest alone \$56,000,000 a year which is being paid by the people, even if they are getting lower salaries—and I do not question that some of them are worth more than they are getting—until the railway has been put on something like a paying basis they should get lower salaries. Usually the salaries of a business corporation are in proportion to the net earnings of that business corporation.

Mr. HANBURY: Not at all. I suggest to Mr. Manion that whether the railway is paying or whether it is not paying—we are giving the information here that it has not been paying and never has been paying—these men are receiving salaries not on the basis of what the railway company is earning but on the basis of what their services are worth in competition with other class A railways.

Hon. Mr. MANION: You can take that attitude.

The CHAIRMAN: This committee discovered at the last investigation that there were certain higher up officials on the railroad that were getting \$60,000 a year and doing nothing for it.

Mr. GEARY: Suppose Mr. Hanbury's point is right; suppose that the higher paid officials are not getting enough money. That is what Mr. Hanbury alleges.

Mr. HANBURY: Yes.

Hon. Mr. MANION: That is his point.

Mr. GRAY: What is your point, Mr. Geary?

Mr. GEARY: I am trying to clear this up. Suppose the higher paid officials are not getting enough money?

Mr. HANBURY: I say that the statement that is given to us about the salaries being paid is nothing to be proud of.

Hon. Mr. MANION: That is a matter of opinion. I think it is something to be proud of.

Mr. MacMILLAN: I think Judge Fullerton was making a statement of the expenses of these higher officials. Might I have that repeated.

Hon. Mr. FULLERTON: The expenses—the personal expenses—previously were \$51,461 and they were cut down to \$5,852.

Mr. MacMILLAN: Do I understand that the total personal expenses amount to only \$5,000?

Hon. Mr. FULLERTON: For those six men.

Mr. MacMILLAN: In the light of the remarks of my friend Mr. Hanbury that should be increased. It used to run to \$800,000.

The CHAIRMAN: We have the case of one man on that road who was getting a salary of over \$60,000 a year and his expenses were pretty nearly half as much as that.

Mr. DUFF: Mr. Chairman, I do not want to interrupt this conversation, but it seems to me we are holding a poor post mortem. We have held it for the last five or six years. Now, corpses usually smell rather bad. I suggest that should go on with the matter we are here for and consider the annual report for last year.

The CHAIRMAN: As far as I am concerned, Mr. Duff, I am not anxious to delay the committee.

Mr. DUFF: That is the idea.

Hon. Mr. MANION: As far as I am concerned, I will be delighted to stick to the facts of this year; but when I am attacked, Mr. Duff, as I have been attacked in regard to some of these matters, I must reply, and I intend to.

Mr. DUFF: Certainly. I would do it myself.

Mr. GRAY: We would think there was something wrong with you if you didn't do it.

Sir EUGENE Fiset: I would like to know exactly the operating expenses between Matapedia and Campbellton since the terminal has been abandoned. I would like to know the expenses per year since 1930, and also what it is costing the railway at the present time to transfer the mail from those two points. I will be satisfied with a statement later on.

The CHAIRMAN: We will get the information for you, General.

Mr. CANTLEY: I would like to ask a question of the chairman of the Board or of Mr. Hungerford. How many supervising officers have you in the Maritime provinces at the present time?

Mr. HUNGERFORD: The classification of supervisory officers is a rather indefinite thing. I do not know how far down the line you want to go. Is a roadmaster a supervisory officer, or not?

Mr. CANTLEY: No.

Mr. HUNGERFORD: Where would you draw the line?

Mr. CANTLEY: I am referring to travelling supervising officers, and I think you have twice as many in the Maritime provinces as you need. Now, there is another point in connection with that. There have been some dismissals of policemen in the Maritime provinces and following their dismissal there has been a series of robberies—breaking into railway stations and breaking into cars. Now, I would suggest that you drop half your travelling supervisors and put on more policemen.

Mr. HUNGERFORD: I can only say what I have said before, that our organization is very very similar to that of other railways of comparative size and condition, and we think that the staff of officers we have now are fine for the purpose.

Mr. DUFF: Have you reduced the number of officers in the Maritime provinces in the last year?

Mr. HUNGERFORD: There have been some reductions in the last three or four years, yes.

Mr. CANTLEY: I would like you to give the matter some further consideration. I think you will ultimately arrive at pretty nearly the point I have arrived at. That is all I have to say in regard to that. By the way, would you be good enough to give me at some time within a few days a memorandum showing how many disabled cars you have on the system and what types they are, and the same with regard to locomotives that are out of service?

Mr. HUNGERFORD: Yes.

Mr. McGIBBON: Mr. Hungerford, probably this question is induced by curiosity on my part. Can you give us any approximate knowledge of what this system is worth on present-day valuation.

Mr. GEARY: On what basis—reproduction or cost?

Mr. HUNGERFORD: I think the best answer to that is this, that on the action of the Interstate Commerce Commission the railroads of the United States have been trying to ascertain what they were worth for many years, and they have not arrived at any conclusion yet. It all depends on the basis. It may be an earning basis; it may be an investment basis, or it may be several different bases.

Mr. McGIBBON: What I had in mind was that I think Mr. Nicholson, the member for Algoma, asked the late Sir Henry Thornton, one day in this committee if a valuation of \$60,000 a mile, as a going concern, would be fair, and he said he thought it would. That figures at approximately the debt we owe to the government.

Mr. NICHOLSON: \$65,000.

Mr. McGIBBON: That figures at approximately what we owe the public. Would you agree with that figure? I do not want you to commit yourself if you do not feel like it.

Mr. GEARY: I would like to ask Mr. Hungerford if any concern, valued as a going concern, which pays no return can be worth \$60,000 a mile.

Mr. McGIBBON: We have a future, surely.

Mr. GEARY: Taking it as a straight business going concern and valuing it on returns, is it worth \$60,000 a mile.

Mr. McGIBBON: Would you take a manufacturing plant that is not earning anything? As a going concern, it may not be worth anything.

Hon. Mr. EULER: It may be worth something in a year or so.

Mr. GEARY: Oh, yes. I do not believe that it is valued as a going concern at all.

Sir EUGENE Fiset: As a going concern it is worth a dollar.

Mr. GEARY: One of the Grand Trunk railways was valued on reproduction cost new less depreciation at nothing, was it not?

Mr. HUNGERFORD: I do not know what you are referring to.

Mr. GEARY: On the arbitration.

Mr. GRAY: That is what the shareholders got anyway.

Hon. Mr. EULER: We once paid \$10,000,000 for something that a commission said was worth nothing.

Hon. Mr. MANION: And the British people think we cheated them out of the whole sum.

The CHAIRMAN: We are not making much progress in respect to this statement. I would like to get along a little faster.

Mr. GEARY: We are at page 4.

Hon. Mr. EULER: May I ask this: there is a sort of summary statement signed by Mr. Hungerford at page 7. Would it be proper for us to discuss under the various heads of items the details, or should we wait until we come to them in detail in the actual report—the balance sheet—later on?

The CHAIRMAN: We would probably save time in getting to the summary. It makes no difference to me. We have been rather desultory.

Hon. Mr. EULER: For instance, if you are going to discuss this I was going to ask a question with regard to railway operations.

Mr. McGIBBON: Before you get away from that. I have been trying three or four times to get this question out. On page 6 we have this statement: "Net

additions and betterments for 1933 totalled \$952,995.91." Is that the total money spent for what you would call in lieu of depreciation?

Mr. HUNGERFORD: No, it is not the total amount.

Mr. MCGIBBON: What was the total amount?

Mr. FAIRWEATHER: The retails are shown on page 17: \$2,950,000 odd spent on road, and there was a net credit \$2,625,000 on equipment which was made up of the purchases—a difference of \$2,100,000 and a write-off due to retirements of \$4,000,000.

Mr. MCGIBBON: Making a total of how much?

Mr. FAIRWEATHER: Making a total of the figure indicated. There has been approximately \$3,000,000 gross capital on road work, and we spent about \$2,000,000 on new equipment or improvement to equipment, and we wrote off on capital on equipment account \$4,700,000 to retire equipment.

Mr. MCGIBBON: I was trying to get the approximate amount that is going back into the road in place of depreciation.

Mr. FAIRWEATHER: In effect, that statement means we have increased our net capital investment in road and equipment by \$900,000 in the year.

Mr. FRASER: I notice in that same statement that was referred to "Montreal Terminal Development, chapter 12-29, \$244,664.39" spent during the year. What is the situation with regard to the Montreal terminals at the present time? How much money has been expended on them in toto, and what was the necessity for spending the \$244,000 odd this year, and what is in contemplation for next year?

Mr. HUNGERFORD: The reason for the expenditure last year was the settlement of land payments. No work has been done.

Mr. FRASER: What is the total expenditure now on the terminals?

Hon. Mr. MANION: About \$16,000,000.

Mr. HUNGERFORD: \$16,381,000.

Mr. FRASER: Are there any contemplated expenditures during the current year?

Mr. HUNGERFORD: Yes, a small amount for additional land payments.

Sir EUGENE Fiset: On page 17 I see "Hotels, \$610,968.36." Can we get any explanation as to the details of this capital expenditure?

Hon. Mr. MANION: That refers to the Vancouver hotel.

Mr. GRAY: Hotels generally.

Mr. HUNGERFORD: Nearly all the expenditure was on the Vancouver hotel, and that was carried on contracts that had been previously let.

Hon. Mr. MANION: That is what I said a few moments ago.

Mr. FRASER: Is that contract completed?

Mr. HUNGERFORD: Not yet. Some contracts are approaching completion.

Mr. FRASER: Is it proposed to proceed with their completion during the year?

Mr. HUNGERFORD: A certain amount.

Hon. Mr. EULER: I do not wish to interrupt, but I believe if we examined the balance sheet and the other accounts item by item we would make more progress.

Mr. GEARY: Yes, that is right. We get all these things as we come to the separate accounts.

The CHAIRMAN: We are now discussing page 17.

Mr. HANBURY: Under capital expenditures I notice an item "500 70-ton Gondola cars" purchased during the past year. Was that new equipment

necessary for the railway at that particular time? I understand you have considerable equipment that was not being used previous to that purchase.

Mr. HUNGERFORD: No. These were coal cars, and we were short of coal cars at that particular time.

Mr. GRAY: When you were purchasing last year—during the year 1933?

Mr. HUNGERFORD: At times during the last year and a half or more we have been short of coal cars.

Mr. GEARY: Why do you call them by that name—gondola cars?

Mr. HUNGERFORD: That is the name—one of the railway terms that has existed for a long time.

Mr. GEARY: I was wondering if it had any relation to a man's name, or if it resembled the well known type?

Mr. HUNGERFORD: No, it is a flat car with sides around it.

Mr. GEARY: They are not run by a man with a pole, for example.

An hon. MEMBER: And a guitar.

Mr. HUNGERFORD: It has a slanting shape fore and aft.

Mr. GEARY: What about the consolidated balance sheet on page 8?

The CHAIRMAN: On page 8, consolidated balance sheet, there is the heading "Assets". Are there any questions to be asked about investments? Very well, we will pass on to the next item. "Current Assets". Are there any questions to be asked in that regard?

Hon. Mr. EULER: What is that item under assets "Miscellaneous Physical Property, \$60,000,000"; it does not mean investments in road and equipment, does it? Or does that mean buildings?

Mr. HUNGERFORD: Chiefly hotels.

Hon. Mr. EULER: Does it include boats? There would be the western boats.

Hon. Mr. MANION: I have the list here and I think it is correct. I have it from the railways: hotels, \$34,000,000; hotel "Scribe," France, \$2,600,000; Grand Trunk Western, \$2,100,000; C.N. Realities, \$4,000,000; Rail and River Coal Company, \$4,800,000; Prince Rupert Dry Dock, \$2,800,000; Canadian Northern Land Department, \$2,000,000; Grand Trunk Western Land Company, \$3,000,000.

The CHAIRMAN: Have we still an investment in the hotel "Scribe"? I thought that was all gone.

Hon. Mr. EULER: No, we own it.

Mr. GRAY: What is the position of the Central Vermont?

Mr. HUNGERFORD: It is owned entirely by the Canadian National.

Mr. GEARY: Does it differ from the Grand Trunk Western. The doctor has given Grand Trunk Western as a separate asset.

Hon. Mr. MANION: That was not the railway, but it was some other part. The Grand Trunk Western would be worth more than that. The land company is \$3,000,000, and this is marked here as \$2,000,000. There are two land companies.

Hon. Mr. EULER: What do you mean by "Investments in Affiliated Companies, \$31,000,000"?

Mr. GEARY: Is the Chicago and Grand Trunk your railroad?

Mr. HUNGERFORD: Yes.

Hon. Mr. FULLERTON: It is called the Grand Trunk Western. If you will turn to page 23.

Hon. Mr. EULER: "Other Deferred Assets, \$7,000,000." By the way, I did not get an answer to my question with regard to affiliated companies.

Hon. Mr. MANION: It is on page 23.

Mr. MACMILLAN: What is the set-up of the Canadian Airways Limited? Has the Canadian National a financial interest in the Canadian Airways Limited?

Mr. HUNGERFORD: Yes.

Hon. Mr. MANION: \$250,000.

Mr. MCGIBBON: Has the C.P.R. an interest also?

Hon. Mr. MANION: Yes.

Mr. MCGIBBON: Who else is interested?

Hon. Mr. MANION: Largely James Richardson of Winnipeg. There are some other shareholders.

Mr. MCGIBBON: Who are on the board?

Hon. Mr. MANION: From the Canadian Pacific, Mr. Beatty, and from our own company, Mr. Hungerford, and Mr. Richardson is president, and I understand that Mr. Richardson supplied the bulk of the money that originally was put in.

Mr. GRAY: Were any capital expenditures made during 1933?

Mr. HUNGERFORD: No.

Hon. Mr. EULER: Have we representation on the boards of all these companies?

Mr. HUNGERFORD: Yes.

Mr. GEARY: Are these investments in affiliated companies par value? With regard to the amount owned by the Canadian National system is that on a par basis. I refer to the second column on page 23, "Amount owned by Canadian National system" and "amount outstanding." Are these on a par value basis?

Mr. HUNGERFORD: Cost basis.

Mr. GEARY: You have your book value at \$6,000,000 and cost at \$5,000,000.

Mr. HUNGERFORD: What it cost the company to acquire them.

Hon. Mr. MANION: The amount outstanding has nothing to do with the Canadian National.

Mr. GEARY: I know that.

Mr. HUNGERFORD: Book value shows \$6,100,000.

Mr. GEARY: I suppose the difference between \$6,100,000 and \$5,200,000 would be the difference accounted for by certain shares not valued.

Hon. Mr. EULER: Is there any general rule as to which of the members of the board represent the Canadian National Railways on those boards?

Mr. HUNGERFORD: They are appointed by the trustees.

Hon. Mr. EULER: There is another question which I think is pertinent because of criticisms we have heard in previous years: is any salary paid to the Canadian National director on those boards?

Mr. HUNGERFORD: No.

Hon. Mr. EULER: Mr. Chairman, I think there should be. It should not necessarily go to the individual, but if he is giving a service to this affiliated company why should not his service be paid for the same as the service of other directors, and the amount turned into the Canadian National Railways?

The CHAIRMAN: You are assuming that the other directors are paid?

Hon. Mr. EULER: Quite so.

The CHAIRMAN: If that is the case, then the director representing the Canadian National Railways should receive his share and it should belong to the Canadian National Railways.

Mr. HUNGERFORD: That is exactly what happens in these subsidiary companies in which the Canadian National owns all of the stock. No figures or salaries are paid, but officers serving as directors in the case of companies that are partly owned by the Canadian National and partly by other interests do receive directors fees and refund them to the company.

Mr. MacMILLAN: Has that always been the practice?

Mr. HUNGERFORD: Since 1932.

Mr. HANBURY: Has the capital of the Canadian Airways been kept intact or have they suffered?

Mr. HUNGERFORD: They have been having a hard time.

Mr. HANBURY: Are you putting in these assets at the par value?

Mr. HUNGERFORD: Book value.

Hon. Mr. EULER: Is the book value really representative of the actual value?

The CHAIRMAN: Are there any further questions on the consolidated balance sheet in the assets column.

Mr. McGIBBON: What is this item "Public Markets Limited \$1,100,000"?

Mr. HUNGERFORD: Market Gardens Ltd.? That represents land purchased at Winnipeg for a yard extension. It was all under the name of that corporation so that it would not store up any trouble.

Mr. GEARY: You represent your investments in the Toronto terminals as about half that, and it is all financed by bond issue?

Mr. HUNGERFORD: Yes. The Canadian Pacific and the Canadian National each own half of the Toronto Terminals railway.

Mr. GEARY: And you have bonds for your half interest, and a slight charge for advances.

Mr. FRASER: What is the amount of the reduction of material and supplies on page 8? The amount is \$28,542,000. What is the reduction in that amount during the year?

Mr. HUNGERFORD: Are you comparing that with 1931 or 1932? \$6,000,000 less than 1932.

Mr. FRASER: Does that represent a reduction in inventory cost or reduction in material?

Mr. HUNGERFORD: Material and inventory cost.

Mr. GEARY: Are the details of that shown in this statement?

Mr. McGIBBON: Will you excuse me, Mr. Chairman, I am sorry I have to go.

The CHAIRMAN: Certainly.

Mr. HANBURY: Have you passed page 6, Mr. Chairman?

The CHAIRMAN: No, we are still there.

Mr. HANBURY: I think there is, discount on funded debt—\$14,000,000, near the bottom of the page.

Hon. Mr. MANION: That is a loss in the sale of securities I am told.

Hon. Mr. EULER: That is under the heading of assets.

Mr. GEARY: That is what I see, it is involved.

Hon. Mr. EULER: A loss is not usually an asset.

Mr. FRASER: One would think it would be on the other side as a deficit.

Mr. GEARY: I think we had better get the accountant to explain that, it is rather involved.

Mr. HANBURY: We can get that information later.

Mr. GEARY: There is quite a difference between cash and a long-term debt.

Mr. HANBURY: : Under the liabilities I notice C.N.R. insurance reserve; does the Canadian National carry all of its own insurance?

Mr. LABELLE: Except for public liability and on steamers.

Mr. HANBURY: I see you have a total of over \$11,000,000, would not that be a very large reserve for insurance.

Mr. LABELLE: To illustrate, it is increasing every year.

Mr. HANBURY: My point is, is it necessary to continue to increase it this way; you have a sufficient reserve at the present time.

Mr. LABELLE: The more it increases the less insurance we take from outside companies.

Hon. Mr. EULER: You have there capital stocks owned by the Dominion Government, in that would you include the stock held by the National Railways in what was formerly called the Toronto Suburban—that is the old Guelph line.

Hon. Mr. MANION: May I say a word with respect to this question of insurance. I understand, I may be wrong but I am subject to correction, that now that you have that figure of nearly \$12,000,000 in your insurance reserve, that you do not pay so much out at the present time in the form of insurance premium.

Mr. HUNGERFORD: That is quite right, we have cancelled premiums in a great many cases.

Mr. GRAY: It will gradually take care of itself, is that the idea?

Mr. HUNGERFORD: It is doing that substantially.

SIR EUGENE Fiset: A few years ago we were told here in the committee that the limit of the amount that was supposed to be set aside would not exceed \$10,000,000. I say, now that we have reached \$11,000,000 is it intended to go further with that.

Mr. HUNGERFORD: I do not think I remember that statement, but we have cancelled premiums. As I said before, the income from the securities in the fund are rather more than carrying our losses. The day may come when we may have a serious loss, and we may need that money.

Mr. GRAY: It seems to have worked out pretty well, and I suppose it is really immaterial whether it be increased beyond \$11,000,000, or whether it is put into the operating accounts.

Mr. HUNGERFORD: It is not a burden on operating expenses, the income from these securities is taking care of the losses.

Mr. GRAY: You have that invested in good securities?

Mr. HUNGERFORD: Yes.

Mr. GEARY: Any credit on your income account year after year goes into your general account—what do you do with the surplus?

Mr. HUNGERFORD: That goes into the insurance fund.

Mr. GEARY: You don't put it into the general account; they buy more securities and that increases this account.

Mr. MORROW: It increases each year.

The CHAIRMAN: Are there any more questions to be asked on this page?

Hon. Mr. EULER: I see a profit and loss balance deficit of \$748,000,000; that is the total accrued deficit since the beginning, isn't it; and it includes the item I was referring to before, which is really charged in the consolidated debt of the Dominion of Canada.

Hon. Mr. MANION: It does not include the last two years, Mr. Euler. Might I just say one word to get the record clear—I think I am right, I am

subject to correction if I am wrong, but I think I am right about it—we did charge the interest on the books.

Mr. HANBURY: Which books?

Hon. Mr. MANION: The railway books, in regard to the interest on cash advanced, \$661,000,000; but there is no interest charge, if you will notice, on the item below that—Dominion of Canada expenditures for Canadian Government railways, \$387,000,000; there has never been any interest charged on that; although that was, as you say, a charge on the consolidated revenue. The only item on which they charge interest on their books is the cash advances.

Mr. HANBURY: You say interest was charged; didn't you mean credited in the books of the railway company—wouldn't they credit the Federal Government with that?

Hon. Mr. MANION: It is shown here as a liability; it is charged by the railway on their books as a liability.

Mr. HANBURY: They credit the Dominion Government.

Hon. Mr. MANION: There is an item there of \$420,000,000.

Hon. Mr. EULER: Carried as one of those non-active assets of the government.

Hon. Mr. MANION: That was explained by Mr. Roberts yesterday.

Mr. GEARY: I wonder if the accountant could explain this item to us so that we will understand it, to show us why a deficit in a profit and loss account is used in a reduction of the liabilities in this general statement. I know it is proper, but it was the subject of a misunderstanding in the house last year—at the bottom of page 9 you will see the profit and loss balance is in the red. The ordinary layman would think that a deficit in the profit and loss account would be a liability rather than an asset. I wish the accountant would just explain that, because I do not think it is quite clear. It is simply an accounting matter, but I do not think it is quite understood. That is not a condition that could exist in the solvent industry at all. Apparently it is placed there in order to get the two sides to balance; the asset side is that much less than the liability side.

Hon. Mr. MANION: If you continue making deficits, you will gradually wipe out your assets altogether.

Mr. GEARY: If this is just a book-keeping entry I can understand it; all I want is an explanation so we will understand it.

Hon. Mr. MANION: I think Mr. Geary's request is a good one.

Mr. GEARY: Why should you reduce your liability?

Mr. COOPER: In the first place I might say that we use the form of classification that is used by all United States railways.

Mr. GEARY: You mean, the Inter-State Commerce Commission.

Mr. COOPER: It is one of their requirements that a debit balance should be shown as a reduction on the liability side of the balance sheet. It could not be an asset in any case. You could not properly say it is an asset, to go on the other side, could you?

Mr. GEARY: You could not, but it might in effect achieve that result.

Mr. COOPER: In theory I think the deficit itself should be considered a reduction in the shareholders' equity as set up above. In this case the equity is represented by the shares held by the government, and by loans due to the government. The gross amount due to the government should then be reduced by the amount of the deficit suffered in operation.

Mr. GEARY: The capital is impaired to that extent.

Mr. COOPER: Yes. Now, Mr. Geary, on the balance sheet statement it is fairly common practice now to deduct a deficit directly from the shareholders' capital. This is so shown for purposes of uniformity.

Hon. Mr. EULER: Don't you think it would carry to the general public a clearer idea of what that means if instead of showing it as a deficit, you were to show it as an excess of liabilities over assets; because, after all, the purpose of a balance sheet is to show a balance, as the word indicates. If you had a surplus it would be on the other side, an excess of assets over liabilities. In the case of this deficit it is a case of an excess of liabilities over assets. This merely established a balance.

Mr. HANBURY: It is a deduction in this case, instead of an addition to the general set-up.

Mr. COOPER: Ordinarily it would be a credit to the shareholder and it would properly show up on this side. This is the side on which it would ordinarily appear. In our case it is a minus quantity, but it is still properly carried.

Sir EUGENE Fiset: In other words, it looks well on paper.

Mr. COOPER: What we should do is to take the capital stocks due the government, and the loans due the government, put them together and deduct from that gross amount the amount of the impairment of the capital represented by the deficit.

Mr. GEARY: So that if the thing were wound up on this statement the capital account would have to be reduced by this amount?—A. Exactly.

Mr. GEARY: Then, you are not insolvent, but you are not quite paying your way.

Mr. COOPER: We are not insolvent so long as the government is keeping us in funds.

Mr. HANBURY: Just to make the point perfectly clear, will you tell us whether the total liabilities of the national railways would be \$2,366,000,000 plus a loss of \$743,000,000, or minus a loss of \$743,000,000.

Hon. Mr. MANION: It would be plus.

Hon. Mr. EULER: No.

Hon. Mr. MANION: Oh yes, it is. May I just say that if you add them together yourself you can see it; cut off that \$743,000,000 from there and you will find the figures add up to over \$3,000,000,000.

Mr. HANBURY: The liabilities total over \$3,000,000,000?

Mr. SMART: May I just give my side of it now? That \$743,000,000 in your liabilities show the deficits—we do not consider them a liability in the sense that it is subtracted anywhere, because they will never be paid back anyway.

Mr. GEARY: Then, if you cleaned up your assets, 100 cents on the dollar, you would be \$743,000,000 short of paying for everything you owed.

Sir EUGENE Fiset: In accordance with your new system of financing, some moneys are being advanced from the Consolidated Revenue Fund to the railways, are any interest charges on that covered in there.

Mr. COOPER: Not so far as the last two years are concerned.

Mr. HANBURY: Might I suggest to you, Mr. Chairman, that many of the members of this committee wish to attend a luncheon at one o'clock to the next premier of Ontario. We would like it very much if you would take that into consideration.

Mr. STEWART: I did not know that Mr. Henry was in town, there is no chance of anybody else occupying that job.

The CHAIRMAN: I have no intention of depriving you of the pleasure of a luncheon; we will adjourn now.

Sir EUGENE Fiset: In the meantime, could we not pass the balance sheet.

The CHAIRMAN: We could not do it, we have only ten or fifteen minutes; we will have to have another meeting. I think we can have that meeting to-morrow, and we will try and clean this thing up.

Mr. HANBURY: Could we not get permission to sit this afternoon?

The CHAIRMAN: We have not get permission from the House, and I do not think we could do it.

Mr. EULER: I would like to make a suggestion: I do not know whether members of the Committee have studied the auditor's report, I have not studied it very closely myself, but there is some very very interesting information in that, especially beginning at page 28 and running over for a number of pages; he deals there with the matter of the misconception on the part of the public, and he states exactly what he means by that. I think we should discuss that, and if the members had an opportunity of studying it, we would probably be able more intelligently to discuss it at some other meeting. It is very very interesting, and I think it ought to be of interest to the committee. Perhaps they have already made a study of it.

Mr. FRASER: It is the heart of the whole thing.

Mr. EULER: He makes some recommendations there which I think we ought to consider very very carefully, because it might enter into our report as a recommendation to the House.

The CHAIRMAN: What is your pleasure about another meeting?

Mr. GEARY: I would suggest that you ask the House at three o'clock for permission to sit again at four.

Mr. EULER: I think we should have time to study this.

Sir EUGENE Fiset: The committee will not be able to do that, a motion made the same day does not apply.

The CHAIRMAN: I do not think I can get it done, I should have asked for that yesterday.

Mr. FRASER: I would suggest eleven o'clock to-morrow.

Hon. Mr. EULER: I would suggest, Mr. Chairman, that you might ask for permission for the committee to sit at any time when the House is in session, it is just conceivable that we might go on next week. If we did want to go on next week, you would be able to sit while the House was in session if you had the permission.

Hon. Mr. MANION: Yes; by unanimous consent I suppose we could get leave of the House to sit this afternoon. Is it the desire of the committee, if we can get unanimous consent, that we should sit this afternoon.

Some Hon. MEMBERS: Hear! Hear!

The Committee adjourned at 12.45 p.m., to meet again this day at 4 o'clock p.m., subject to leave of the House to that end being obtained.

The Committee resumed at 4 o'clock.

The CHAIRMAN: Gentlemen, let us resume.

Hon. Mr. MANION: Before we go into regular business—and I do not intend to start any political discussion in any shape or form—

Mr. GRAY: Go ahead.

Hon. Mr. MANION: —I did not have under my hand this morning a statement of Mr. Hungerford which he had given to the press without my knowledge when we were talking about economizing, and which I have quoted in the House

of Commons on one or two occasions, and I would like to put it on record as a matter of evidence in regard to the remarks made this morning by Mr. Gray which I disputed. This is the press statement given by Mr. Hungerford to Mr. Paul Reading who, in turn, quotes it in the *Ottawa Citizen* of September 4, 1932, and this is part of Mr. Hungerford's statement absolutely verbatim. He said:—

Railway economy, he pointed out, was a progressive thing. It involved a constant increase in efficiency. Perhaps the best measure of recent improvement was that whereas the net operating revenue of the Canadian National in 1928, its peak year, had been roughly \$56,000,000, the system as now organized could show a net of over \$75,000,000 on the same volume of traffic as it handled in 1928."

Now, this statement was given to Mr. Paul Reading and I read it as an ordinary reader in the press and I did not know the statement was going out. I wanted to put Mr. Hungerford on record, since we had the dispute, and I do not think he will question that because the words were in a statement he gave out. I can give you the original if you want it.

MR. HANBURY: Would that be based on lower wages or on lower costs of materials or in increased efficiency or in some other way?

HON. MR. MANION: I do not wish to argue that out, but he simply says that the system as now organized could show a net profit of \$75,000,000. That would be \$19,000,000 of an increase in profit because of economies. I presume it would take in some of the things my honourable friend says. At any rate, it shows a special economy of \$19,000,000 in 1932 as compared with 1928 which was the peak year.

MR. HANBURY: But not necessarily a comparative economy with other class A railroads.

HON. MR. MANION: No; but I think the Canadian National Railways made very much greater economies than other class A railroads.

MR. HANBURY: That is a question of opinion that could be easily substantiated. It is not necessarily a comparative economy on the part of the Canadian National Railways that other railways did not participate in.

HON. MR. MANION: The fact is that he states that had they had the same economies in force in 1928 as they had in 1932 they would have made \$19,000,000 more proves that the economies were there. The details will have to be given us by Mr. Hungerford, but I wanted to quote him as saying that there were those special economies.

MR. GRAY: I am not going to involve Mr. Hungerford, but I still stand on the statement I made this morning, and I think, without getting into a controversy with the Board—

THE CHAIRMAN: That you could make a pretty good case out?

MR. GRAY: —that I could make a good speech on the reason why 6,000 men were fired.

HON. MR. MANION: You always make a good speech on almost any subject.

MR. FRASER: I was going to suggest, Mr. Chairman, that I noticed in the press some time ago a statement which had been made by the chairman of the Commission rather in an attempt to allay the fears of the workmen in the system with regard to the abandonment and combination of certain lines of railway throughout the Dominion. I wonder if we could not have that incorporated in the record. I thought it was a very convincing statement of the whole that, and a very comprehensive one. I was wondering if we could not have that incorporated in the record.

HON. MR. MANION: I do not know what statement you refer to. Maybe Mr. Fullerton could tell us about it.

Hon. Mr. FULLERTON: Do you mean the message to the men which was published in the Canadian Railway Magazine?

Hon. Mr. MANION: I have no objection.

The CHAIRMAN: If it is the wish of the committee that it should be incorporated in the record, I think myself it probably should be read.

Mr. McGIBBON: I think so too, Mr. Chairman. I think in the interests of the public the true picture of these railways ought to be given out. I think we ought to tell the public just how much in dollars and cents ordinary depreciation, which has been written off for a good many years, would amount to in this road. Railway men have told me that it runs from 2 per cent to 7 per cent. Now, that probably would amount to \$40,000,000 or \$50,000,000 a year. I asked a question this morning trying to get at that, and if I got the purport of the answer properly we are writing off less than a million and four million on equipment. Now, the people ought to have a proper picture of this road. Sir Joseph Flavelle in his course of questioning on the Duff Commission said that depreciation was just as much a charge against the railways as wages and fuel. Now, unless we give the people a proper picture—unless we get into our own heads what we are up against we are not going to solve that question. It is not going to be solved by speeches or by newspapers who are continually feeding the Canadian people with a lot of stuff that I think is not a hundred per cent correct; and I do not think it would be an unfair figure to say that \$50,000,000 a year for depreciation would be a proper figure. Someone may contradict that if he likes, but if you take the amount of money that we owe the public, 4 per cent on that would be about \$52,000,000.

Hon. Mr. ELLER: I do not want to contradict anything, but I would like to ask whether possibly the replacements we allow are equal to the depreciation.

Mr. McGIBBON: Nothing like it. Let us get a true picture of the thing putting down a fair amount for depreciation, then take your replacements and put them on the other side. Personally I hope it is good.

The CHAIRMAN: You must remember this: in a great many businesses the question of depreciation is not always taken by the business in the same sense as Dr. McGibbon says. If a company—whether it is a manufacturing company or not—kept up its plant in first class condition it is not necessary at the same time to furnish a large depreciation account.

Mr. HANBURY: Unless you want to save income tax.

Mr. McGIBBON: I say give us both sides of the picture. I think depreciation in railroads must be heavy.

The CHAIRMAN: A good deal depends on what they are spending on maintenance.

Mr. McGIBBON: All I am asking is to give us a true picture, and I hope it is a good one.

The CHAIRMAN: I cannot give you the picture.

Mr. CANTLEY: Before that matter is dealt with, I think you would have to decide on what items depreciation was going to be calculated. For instance, take the roadbed. My idea is that the roadbed of any railway that is kept up is improving all the time. It must be so; it is so. Now, you have to eliminate that. It is a large factor in the whole cost of the road.

Mr. McGIBBON: I am not discussing that. Surely with one hundred years of experience in railways here in the United States and elsewhere some scheme of depreciation has been worked out. All I am asking for is an application of that scheme to the national railways.

Mr. CANTLEY: My point is that before that is done the committee ought to decide on what items they want depreciation worked out.

Hon. Mr. MANION: I am informed that the Interstate Commerce Commission has for many years been trying to work out some basis. I mention that because it is the best opinion I could get.

Mr. McGIBBON: It has been applied practically not in this country but in Europe. Put the scheme, whatever it is, to work on the Canadian National Railways and let us have a true picture.

Hon. Mr. FULLERTON: In the United States they have never fixed the percentage; each railway puts it at whatever percentage it chooses.

Mr. McGIBBON: By studying them all you get certain ideas as to what they do on different lines as regards your rolling stock, roadbed and so on.

Hon. Mr. EULER: I would like to ask Mr. Hungerford whether taking into consideration actual additions by way of additional cars, equipment and things of that sort, in his opinion the physical value or physical condition of the railways, anything that is subject to deterioration, has been kept up—is it now in as good a physical condition as it was three or four years ago? If it is not, of course, there would be depreciation.

Mr. HUNGERFORD: I do not think that the average condition is quite as good, but I do not think the difference is great.

Mr. GEARY: Is it not a matter largely of policy. If the road has made good year after year out of current revenue what the depreciation is is just that used-up portion of the book value. I think I am correct in saying that. That is really what you charge as depreciation—the used-up portion each year as a used-up part of your value; and when you come to replace, what you do, I suppose, is to create depreciation with the new cost and charge it with the salary. Am I right?

Mr. HUNGERFORD: Not far away.

Mr. McGIBBON: I am not asking that. I am not discussing methods.

Mr. GRAY: I agree with Dr. McGibbon. I feel we are entitled to know the true picture. There is no need of slavishly following the Interstate Commerce Commission. I have heard that for years, and we might as well make up our minds that this is a Canadian road and that the Canadian people are bearing the burden, and that a true picture has to be presented to the people.

Mr. GEARY: The point I am making is this: what is the value of it?

Mr. GRAY: What is the value of any picture. As long as you tell the people the truth they will know what they are faced with.

Mr. McGIBBON: Of course. Absolutely.

Mr. GEARY: If there is deferred maintenance cost that should have been made before, I see some value in it; but the road is not for sale; the present value of it as a road does not make much difference.

The CHAIRMAN: As I understand the matter, this company has never presented us at any time as far as I know with a depreciation account. Now, Dr. McGibbon and Mr. Gray say we ought to start and ask the management to produce a depreciation account.

Mr. McGIBBON: We ought to get a starting point.

The CHAIRMAN: As I understand it, you want to adopt a new system. I am not in favour of that.

Mr. McGIBBON: No. That is not it.

Mr. FRASER: I notice a reference in the auditor's report, and I want to quote from page 11:—

Retirement and Depreciation policy 1923 to 1933: Retirement accounting has been applied on the Canadian lines within the provisions

of the operating classification issued by the Department of Railways and Canals in 1915.

From 1923 to 1930 the retirement accounting basis presented no serious problem in so far as the net income result was concerned because of the liberality of charges to operating expenses on account of rehabilitation and the improvement of operating standards.

During the latter part of 1931 and extending through the year 1932, because of the contraction of maintenance provisions the retirement charges to operating were left without the support of such provisions that existed in prior years, and to meet the situation an increase was made in 1931-1932 retirement quotas with the proviso that the 1933 quotas would be increased by a further \$500,000 regardless of traffic declines.

The question that occurs to me in regard to that is, was that \$500,000 appropriated for that purpose in 1933?

Hon. Mr. FULLERTON: The auditor is here and could give you any information you wish.

Sir EUGENE Fiset: As a matter of fact, in accordance with the auditor's report at any rate, in addition to the provisions for depreciation at 2 per cent up to 1932 you have added a special quota of \$500,000 over and above the 2 per cent generally provided.

Hon. Mr. MANION: Mr. Matthews, you have heard the statement read; will you just come forward and answer any questions asked.

Mr. O. A. MATTHEWS, called.

Hon. Mr. MANION: Mr. Matthews has been an auditor with the Touche Company for a good many years on the Canadian National Railway.

Mr. FRASER: Was it provided, it does not say there that it was provided?

Mr. MATTHEWS: What was the page, sir?

Mr. FRASER: Page 11. The question I asked was, was that provided?

Mr. FRASER: No?

Mr. McGIBBON: Now, did you get my point, the question I asked?

Mr. MATTHEWS: First of all, what question did you want me to answer?

Mr. McGIBBON: Here you have two plans—in one you are taking a fair sum for depreciation, and against that you are putting the money you spent for retirements. How do they compare?

Mr. MATTHEWS: That is a fair question, I think, Mr. McGibbon. I would be very glad to answer it. In the first place, we say in our report that the question of retirement accounting on Canadian lines versus depreciation accounting from the year of amalgamation up to 1930 presented no serious problem—for this reason; that in 1923 this system took over a property that had to be rehabilitated in some measure. There was a study made back to 1922 or 1923 taking the operating standards as they existed at or prior to amalgamation and subsequent thereto together with the retirement that had been charged during those years, and comparing them with a theoretical depreciation basis for these years. And what we found was this, that if there had been a theoretical depreciation charge—obviously in all these years being auditors for commercial enterprises we have not been ignorant of the fact that much criticism has been levelled at this retirement basis of accounting—much of the amount that had been absorbed in the operating expenses of the individual years would have been charged against reserves, together with the retirements. And I could give this committee, if they are interested—or any member—a rough outline of that study made in 1930 or 1931.

Now, it was on that basis we considered for these eight years, the income accounts of this property were a fair reflection of operating results; but one of the things that has never been understood—and I recall at this moment an outstanding writer for the Wall Street Journal some three or four years ago taking the income accounts of the Canadian National, and sitting down, as many do, with a pencil and figuring that theoretically there should be so many million dollars of retirement charges in lieu of depreciation shown in the account, and that the difference is what should be deducted from the net income. Nothing could be more fallacious, for the simple reason, as most of you are aware, you must first know what is included in the operating accounts. And this study, for these eight years, made a broad separation of the operating expense charges that under depreciation accounting would have been charged against reserves, but which in actuality were charged to the operating accounts in each year. I would be very glad to give the information on that rough study up to 1930.

Mr. McGIBBON: Could you put that in?

Mr. MATTHEWS: Yes, we could.

Mr. McGIBBON: Thanks very much.

Mr. MATTHEWS: I am very glad you raised that point, Dr. McGibbon, because our position as auditors of this property is a very difficult one; many statements are made that we have absolutely no opportunity to refute.

Depreciation I think is one of the bugbears. There are religions, politics and depreciation: and I think the most controversial is depreciation.

Now, starting with 1931 when a new problem had arisen because maintenance charges to operating were falling off, there was no continuous policy of the upward trend in the rehabilitation and operating standards. Therefore, in 1931 and 1932 we had conferences with the Executive officers; and we said—now in view of this fact we will have to consider, before we certify the accounts, an increase in this retirement quota, and a million dollars was added—that is, for the years 1931 and 1932.

Mr. McGIBBON: Making a total for those years of how much?

Mr. MATTHEWS: Oh about—I think if I remember correctly it increased it to about three and a half million dollars. I have the figures on the other desk.

Mr. McGIBBON: Could you let us have it just approximately?

Mr. MATTHEWS: I am at a little disadvantage in not having all my papers at this desk.

Mr. McGIBBON: You could submit it.

Mr. MATTHEWS: I will be glad to.

Hon. Mr. EULER: Was that a purely arbitrary measure?

Mr. MATTHEWS: Yes, it was; it was a quota that we considered was a fair one under the circumstances.

Mr. McGIBBON: In your opinion you thought it was fair?

Mr. MATTHEWS: We thought it was fair, sir; although we do not take the position that because we thought so it was necessarily the last word.

Hon. Mr. MANION: May I get that clear: do I understand you aright, that you added a million dollars to the operating expenses; that then would appear in the deficit and the government would have to put up that money.

Mr. MATTHEWS: Oh no, that is non-cash. Retirements, line depreciation are non-cash items, it is only for the purpose of presenting a true picture of the income situation; and, of course, that has been in the back of our minds always, regardless of mis-statements to the contrary.

Hon. Mr. MANION: That would add a million to operating expenses, you say?

Mr. MATTHEWS: Yes. It is in your income account, Mr. Manion; but with no draw-down from the government.

Hon. Mr. MANION: Then that is on the debit side of your operating statement?

Mr. MATTHEWS: That is right, one of the non-cash items like depreciation and discount on funded debt; it has nothing to do with a draw-down from the government.

Hon. Mr. MANION: If you add a million to your operating expenses, that is a million less for your interest.

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: If you have a million less toward paying expenses, you really get a million from the government?

Mr. MATTHEWS: Oh no, sir.

Mr. HANBURY: It is just a control entry.

Hon. Mr. MANION: If you add a million to operating expenses, and if you have we will say five million toward interest this year, if you set aside a million on account of operating expenses to make up for depreciation, that would leave only four million for interest and the balance you would get from the government.

Mr. MATTHEWS: Supposing the income account shows a deficit of sixty million; what we certify for Budget purposes is that sixty million dollars less those non-cash items, and one of them is an increase in the depreciation reserve. But the American lines, for instance; let me see now, I believe there is something in what you say—if these operating expense charges had been arbitrarily increased with the retirement of the properties; in other words, if a reserve had been set up, then your point would be well taken. But as a matter of fact, Dr. Manion, the retirement policy which we refer to was one of increasing the quota. The point I wish to make is, if there were arbitrary increases in the charge without making the retirements of the property, then there might be an extra draw-down of a million that would not be justified; but these equipment units have all been retired.

Mr. MCGIBBON: Just a cross-entry in your books.

Mr. MATTHEWS: Yes. In a quota of that kind—obviously as auditors and I suppose we may speak freely here, with all due deference to the operating departments of all railways (not the Canadian National alone)—we know that the attitude is always one of sparing operating expenses; that is natural. So our position is, of course, that there must be a correct presentation of the facts; and with that idea in mind we would naturally have to see that retirements were reasonably sufficient.

Mr. GRAY: And you feel you have presented that picture.

Mr. MATTHEWS: Yes.

Mr. HANBURY: If it was an amortization or a sinking fund then the actual cash would go into it.

Mr. MATTHEWS: As far as cash was concerned, I can see Dr. Manion's point; if operating expenses had been arbitrarily increased a million, and the money were drawn down for that purpose simply to create a reserve, then it would not be right; but the fact of the matter is that that was not done. In so far as the auditor is concerned this leads us into rather an involved situation. In making the deficit and capital expenditure certificates for the government—at the end of that statement for example, retirements are included in income as a charge, and they are deducted in the same figure from the capital expenditures in gross; so that in the net you can see it would be the same thing. Supposing we say the only thing we spend in cash this year was \$100 for new property,

that was the total expenditure; during the year there had been retirements of \$10.00: now, what is done is \$90 is drawn down as a capital expenditure appropriation and \$10 is taken in as part as the income deficit.

Hon. Mr. MANION: I appreciate that, that is not the same statement as your million dollars; it was a new scheme; a new idea.

Mr. MATTHEWS: Oh no, sir, it was not new.

Hon. Mr. MANION: I understand that up to the time you speak of—

Mr. FRASER: This was started in 1931.

Hon. Mr. MANION: I am not finding any fault with it.

Mr. MATTHEWS: I would like to make this point clear, because this will readily explain it I think. Nothing new has taken place except this, in 1931 we had to recognize that these operating supports had been withdrawn, the amount of revenues were down, and operating policies were beginning to look stringent.

Hon. Mr. EULER: They did not spend as much on maintenance, is that what you mean?

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: And no railway spent as much. Every railway had to defer its maintenance throughout the depression.

Mr. MATTHEWS: Maintenance is another question. If we just settle this point, that nothing took place in 1931 that was different to any other year, except we had to see this retirement charge went up.

Mr. FRASER: And you added \$500,000 to the depreciation account?

Mr. MATTHEWS: There was an increase made in 1931 and 1932, charges for operating expenses, of something around a million dollars; and in 1933 it was arranged that a further half million be charged, and I may say that in 1934 there will be a further charge—a further addition to that.

Mr. DUFF: In what accounts? It was a charge to operating expenses, where was it credited—this is a double entry journal entry.

Mr. MATTHEWS: It will be charged to maintenance account as a retirement, and credited to property account when retired.

Mr. FRASER: Do I understand that there is to be a further increase of \$500,000 this year?

Mr. MATTHEWS: It has got to be done.

Mr. FRASER: I understood you to say there would be a further increase.

Mr. MATTHEWS: For 1934?

Mr. FRASER: What do you say it will be this year?

Mr. MATTHEWS: It is a little early to say yet, we wanted to make a further study of that along with the trustees. So far as we are concerned we feel, as we have said, in our report, that regardless of revenues the trend of charges through operating expenses for retirements must be kept up.

Mr. GEARY: On that million of Dr. Manion's.

Hon. Mr. MANION: Oh, it is not mine, put it in your own expenses.

Mr. GEARY: As far as I can understand it is merely a matter of book-keeping entry.

Mr. MATTHEWS: I do not know that I could explain it any better.

Mr. GEARY: It is as clear as mud to me, I want to see if I can understand it. You said that the sum of one million dollars is included in the operating expenses, did you; one million is the quota for the retirement.

Mr. MATTHEWS: The increase.

Mr. GEARY: Suppose you had more revenue than operating expenses, then your operating expenses would be reduced by that million dollars, would it; but that million dollars would not be a cash entry of an amount paid to anybody—this million dollars is not paid to anybody.

Mr. MATTHEWS: No.

Mr. GEARY: It is simply a book-keeping charge to an account.

Mr. MATTHEWS: Yes, that is right; it is cash only in those cases in which you buy new equipment.

Mr. GEARY: So there is no occasion to reduce the amount of money got from the government in regard to this?

Mr. MATTHEWS: As I said, it is just a debit and a credit; not a net cash draw down.

Hon. Mr. MANION: Suppose we accept it as a book entry; and let it go at that.

Mr. GRAY: You say it is an arbitrary figure.

Mr. MATTHEWS: The point is, gentlemen, it is an essential thing that we as your auditors must see that the income account includes sufficient charges—that the net income account will not be distorted.

Now, this particular man to whom I referred in the Wall Street Journal, tried to show that in one year the income account should have been charged something like fifteen million; the difficulty was that this particular gentleman did not know what was already charged in operating expenses, or what would have gone into reserves under depreciation accounting.

Mr. GEARY: Retirement accounting is the thing you use; just what does that mean in your book?

Mr. MATTHEWS: It just means this, depreciation is theoretical, retirement is actual; when a unit of property is retired from service it is charged to operating expenses and credited to property.

Mr. GEARY: That is, your property account goes down and you are up on expenses.

Mr. MATTHEWS: That is right, just exactly the same in principle as if you had debited depreciation and credited reserves.

Mr. GEARY: Then when you speak of retirement accounting that means it is by itself; it is put in the retirement account, in the sense of being in the gross amount entered each year.

Mr. MATTHEWS: Yes.

Mr. GEARY: That is just what I wanted to get at; retirement accounting means you are taking the items as they are retired, one by one.

Mr. HANBURY: Charging that million dollars to operating account, you actually showed by that book entry that the net results were one million dollars worse than they would have been if that entry had not been made.

Mr. MATTHEWS: But apart from the question of an entry, sir, it was a question of the determination of a quota, so to speak.

Mr. HANBURY: Yes, I realize that; but my point is this: if you had not made that entry the railway company would have shown better by one million dollars; as it is now it shows a loss in operating.

Mr. MATTHEWS: They were retirements.

Mr. HANBURY: Had you not made that entry they would have been that much better off.

Mr. MATTHEWS: Yes.

Mr. HANBURY: All right. Dr. Manion was very much worried; he thought the railway company was doing better, and I was just trying to show him that it was doing worse.

Mr. MATTHEWS: But there was no draw-down in money; of course, if there had been we would certainly have called your attention to it.

Hon. Mr. EULER: It is an action which the railways take and which the auditors take; does that now supply what Dr. McGibbon says, a true picture?

Mr. MCGIBBON: He has supplied part of it, he is going to give us a memorandum.

Hon. Mr. EULER: Is it nearly a true picture, what we have got now?

Mr. MATTHEWS: If we did not think it was fair presentation we would not sign it.

Mr. GEARY: Your statement of retirement accounting during this period from 1923 to 1931 leaves you in the same position as though you set up depreciation accounts.

Mr. MATTHEWS: I would not say that. From 1923 to 1930, the year in which the study was applied, it will show that there was some reasonable relationship to theoretical depreciation; but from 1931 on the situation changed, for the reason that we gave you. And if you refer to our certified accounts we state clearly on the bottom that the accounts are for the Canadian lines on a retirement basis; that is fair notice to anybody that it cannot be depreciation accounting on the Canadian lines. But I certainly would not make the statement that theoretically the retirement accounting and depreciation from 1923 to 1931 would be the same, because the various factors do not always coincide.

Mr. GEARY: What you say is that it presented no serious problem.

* * * *

Mr. GEARY: Your language is, it presented no serious problem.

Mr. MATTHEWS: In our opinion of 1923 to 1930 the problem was not at all a serious one.

Mr. GEARY: Suppose you set up a depreciation account on the basis of ties ten per cent, and other items at appropriate amounts, representing the used-up value of the road as it is to-day, you would have to charge a very considerable amount into your liabilities, wouldn't you?

Mr. MATTHEWS: Oh, you would have to increase your operating charges very considerably.

Mr. GEARY: To bring it up to date, you would have to put in a lump sum—

Mr. MATTHEWS: Really, gentlemen, in our report we have tried to outline the difficulties of depreciation accounting in the United States. In that depreciation order No. 15,100, of which I have a copy here if any member is interested, you will find their theory of depreciation accounting for railways. Its practical application could not be so simple as some people think, otherwise these United States interest would not have made the postponements we have referred to on page 13. We can only deal with the facts as we find them. I will read what we said on page 13: "Whilst the application of depreciation accounting for industrial and mercantile corporations is universally recognized it will be seen from the foregoing supplementary orders and postponements that the Inter-State Commerce Commission and the railroads of the United States have not found the problem so simple of practical application."

Referring to the British railways we find that as a result of the experience they have had it is only within the more recent years they have been able to come to a unified basis of depreciation accounting.

Mr. GRAY: Are we not in a position, comparable to them.

Mr. MATTHEWS: Not on this depreciation accounting. What I am saying is that the British are one step ahead of all of us. They have depreciation accounting in Britain to-day on both fixed property and equipment; but remember their operating conditions with respect to climate, distance, and all the factors that enter into the problem, are different. Therefore, we say in our report the United States is the best comparison we can use; and there since 1887 with the commission and the advice and counsel of the accounting officers of the United States railways they have not been able to make order 15100 finally effective.

Now, that is the best answer I can give to you to the question of railway depreciation. When they solve the problem we may be able to solve it, but we are not smarter than they.

Hon. Mr. EULER: What was the gross outlay prior to 1931 and since 1931; is that now reasonably adequate to take care of depreciation.

Mr. MATTHEWS: We think so for retirements only Mr. Euler; but we do say this—I would like to call attention to what we have said in our report.

Hon. Mr. EULER: You refer to the definite recommendation which appears on the bottom of page 13 and 14.

Mr. MATTHEWS: Yes.

Mr. McGIBBON: The difference between 1923 and 1930, would that be a large amount of money they are putting back into the road?

Mr. MATTHEWS: For new equipment, do you mean?

Mr. McGIBBON: Yes.

Mr. MATTHEWS: Yes, but I am giving now maintenance of equipment charges per train or car mile, and maintenance of way and structure charges per mile of road during these years; and comparing them with the relative standards say in 1922 or 1923 to 1930. Since 1930 there is always this, and the C.P.R. refer to it in their report, the railways, naturally used their newer equipment to save their operating expenses. The C.P.R. made that statement in their report a couple of years ago or so.

Mr. McGIBBON: Thank you very much.

Mr. GEARY: Have you a copy of order 15100?

Mr. MATTHEWS: I think I have a copy here.

Mr. GEARY: Your recommendations are definite, on pages 13 and 14.

Mr. MATTHEWS: Yes, sir, that is what we recommend in regard to depreciation.

Mr. McGIBBON: It is a very difficult thing evidently to arrive at any conclusion.

Mr. MATTHEWS: There is the history of the situation with those bodies that have been studying the matter, for nearly fifty years, in the U.S.A. and longer in Great Britain.

Mr. McGIBBON: You have given us a lot of information.

Mr. MATTHEWS: As a matter of fact the original order 15100 was to have been made effective in 1928, and it has been put off as we have shown here year after year, and now it has been postponed again to 1936; so there must be something to it; and our view is this, let the other people spend the money and find the basis for the practical solution of this problem; when they have found the solution let the Canadian National take it; but until they do that there would appear to be no good reason why the Canadian National should involve itself in needless accounting expenses so long as their retirement accounting is kept up where it should be. We recognize however that eventually you will have to adopt depreciation accounting.

The CHAIRMAN: Are there any more questions for Mr. Matthews?

Mr. GEARY: I do not think I will read this order 15100, it is only about 150 pages long. It was to become effective when?

Mr. MATTHEWS: Originally in 1928.

Mr. MCGIBBON: Could we have that report he is going to get for us incorporated in the minutes?

The CHAIRMAN: If it is the wish of the committee. Mr. McGibbon asks that the statement when it is received be incorporated in the minutes; is that your pleasure? Carried.

Mr. MATTHEWS: That statement is not one that we are prepared to say—.

Mr. GRAY: You do not suggest that it is the last word?

Mr. MATTHEWS: No, not at all.

Mr. HANBURY: They recommend a reduction of the capitalization, I think that speaks for itself.

Mr. MATTHEWS: In our Audit certificate since 1923, if you will read it, you will find we have always qualified the value of the investment in road and equipment, because we know that prior to 1923—for instance, the C.G.R. according to the findings of the 1925 audit board—they then recommended that \$152,000,000 be written off the property; and we know in the other corporate units there were charges in investments in road and equipment account that would have no place in railway accounting practice to-day. Our certificate has always been qualified as to the Valuation of the Investment in Road and Equipment Account as Capital Assets.

In connection with the Capital Adjustment Proposals, it should be borne in mind that what is shown as being owing to the Government is treated in our report on the basis of the certificate from a creditor, and as long as that creditor says it is a liability, so it must remain. But our proposals dealt with a suggestion to the creditor, which in this case is Parliament, to consider the effect of discontinuing a practice that in our opinion is harmful.

Mr. GEARY: There is nothing illusory in the statement at all as to the value of the road.

Mr. MATTHEWS: No sir not since 1923. The distribution as between capital and income account since 1923: we accept full responsibility for the accounting distribution, and the authorities from parliament to make the expenditure since amalgamation. It is a complete picture in that sense.

Mr. GRAY: I would like to ask Mr. Matthews if he has anything to add. You have had the advantage of seeing the statement which is signed by the chairman of the Board of Trustees with respect to the recommendation of a new set-up of the capital structure. I wonder if you have anything to add to what the chairman of the Board of Trustees has said. I think that is a matter we are all vitally interested in.

Hon. Mr. EULER: I want to back that up. I am looking at a phrase "Misconceptions" in the public accounts with regard to these railways. It refers particularly to that billion dollars that they are suggesting, being a bookkeeping entry, could be written off. Get rid of the fictitious assets on the government books and the fictitious liabilities on the railway books. I would like Mr. Matthews to enlarge on what is meant in this auditor's statement.

The CHAIRMAN: Did you cover that in your report?

Mr. MATTHEWS: In our report we dealt with five arguments which at that time we had known. Since the publication of our report we have found seven more arguments that have been advanced in the public press and by public utterance, and if it is the wish of this committee we are perfectly prepared to

go along and enlarge on what has been said in our report and to deal with those arguments which have arisen since the report has been published.

Mr. HANBURY: I would suggest that that should be submitted in written form.

Hon. Mr. EULER: Let us hear it. I may, if necessary, have to move—

Mr. GEARY: We do not need a motion.

Mr. MATTHEWS: I have not got it in such form that I could present it just at the moment, but it would not take me long to say what we have in mind if you want to hear it.

Mr. GRAY: I would like to hear it, and if it is the wish of the committee, to have it printed.

The CHAIRMAN: Of course, it will go into the report; but if he prefers to have it written then we had better have it in the best shape we can get it.

Hon. Mr. MANION: Whatever Mr. Matthews feels is in the best interest of the committee.

Mr. MATTHEWS: I could not put what I have in its entirety, because I did not write it with that idea in mind.

The CHAIRMAN: You had better have the report the way you want it printed, and we will have it in better form.

Mr. MATTHEWS: I can read it in that way.

Hon. Mr. EULER: I wish Mr. Matthews would discuss this in an everyday form and let us understand it.

The CHAIRMAN: Whatever the committee wishes is all right with me.

Hon. Mr. EULER: With regard to these misconceptions. He has given five reasons for writing down that capitalization. Since then I think he has found seven more. I wish he would give them.

Mr. MATTHEWS: By way of explanation, let me say that the C.N.-C.P. Act, 1933, requires the auditors in their annual report to parliament to "call attention to any matters which in their opinion require consideration or remedial action."

We consider that the capital structure of the National system falls under this caption but in carrying out this particular injunction of the Act we do not wish to be considered as making any determined plea or persuasive effort for the adoption of our proposals. Having discharged our responsibilities as auditors in calling attention to the situation and with the submission of any further explanations required by the committee, the matter, so far as we are concerned, rests entirely with parliament.

Furthermore, these capital adjustment proposals are not put forward by us in any sense as a "cure-all" for Canadian National Railway financial problems, but rather as a forerunner or a complement to whatever operating measures may be found necessary in the future to establish the railways on a sound economic footing—whether by co-ordinated effort, by unification or by any other means which may be developed to meet the exigencies of the situation.

Now, the first five arguments against the proposals are included in our report. On page 34 we have indicated the five arguments which at that time we know existed against the proposals. Since that time, in the public press and by public utterance there are seven more which we will answer.

I would like to make just a passing reference to argument "A" that was included on page 34 of our report:—

That the Dominion would lose the record of totality of National Railway System cost to the Dominion government.

That argument has already been answered, but I would like to make this further point. Dr. McGibbon yesterday asked the question if the railway accounts did not include all of the costs to the Dominion government, and I think Dr. McGibbon asked for the amount that was not in the railway accounts as a liability to the Dominion. I prepared that information yesterday afternoon, and now report that in addition to the loans from the Dominion of Canada shown on the balance sheet at \$662,000,000 and expenditures for C.G.R. of \$404,000,000 there are up to the end of December, 1933, some \$275,000,000 not now in the liabilities of the National System simply because the government do not consider them liabilities of the railways.

Mr. HANBURY: Because the government do not consider them assets.

Mr. MATTHEWS: Do not consider them liabilities of the National System.

Hon. Mr. EULER: Nor assets for themselves.

Mr. MATTHEWS: They would be in the net debt. The point I am making, Dr. McGibbon, is that \$275,000,000 in addition to what is on the balance sheet now—

Hon. Mr. MANION: And in addition to interest.

Mr. MATTHEWS: Exclusive of interest. In other words, we have reconciled this figure with that one prepared by the Royal Commission in 1931, and the total cash investment of the Dominion from Confederation up to December, 1933, excluding all interest, is \$1,341,000,000. Now, I think Dr. McGibbon also asked how it was divided between deficits and capital. It is approximately 42 per cent to deficits and 58 per cent to capital.

Hon. Mr. MANION: What is that \$275,000,000 made up of?

Mr. MATTHEWS: Government appropriations not treated as liabilities in National System amounts as at December 31, 1933:—

(1) Deficits of Canadian Government Railways prior to amalgamation—\$53,000,000 (page 14 Royal Commission Report);

(2) Eastern Lines cash deficits 1927-1933 (excluding 20 per cent) \$40,000,000. Freight rate reductions.

(3) Canadian National Railways cash deficits 1932-1933, \$106,000,000.

(4) Cash subsidies (page 14, Royal Commission Report) \$44,000,000.

(5) Acquisition of Canadian Northern stock (page 14, Royal Commission Report) \$10,000,000.

(6) Other payments (page 14, Royal Commission Report) \$22,000,000.

Total non-liability appropriations (excluding interest on above items and excluding interest on investment in Canadian Government Railways from time of construction to date (\$275,000,000).

Summary: Loans from Dominion of Canada per balance sheet December 31, 1933—\$662,000,000.

Expenditures for C.G.R. per balance sheet December 31, 1933—\$404,000,000.

Non-liability appropriations per above—\$275,000,000.

Total cash investment by Dominion to December 31, 1933, excluding all interest—\$1,341,000,000.

Deficit 42 per cent—capital purposes, 58 per cent.

The point is you hear so much talk about the fact that the government would lose the totality of their investment if the proposed eliminations were made from the National System balance sheet. First of all, you would have to add back \$275,000,000 plus all interest before you get the picture so many people talk about.

Mr. MCGIBBON: Is that your grand total?

Mr. MATTHEWS: No. \$1,341,000,000.

Hon. Mr. MANION: You are not including interest?

Mr. MATTHEWS: Excluding interest, If you included interest, Dr. Manion, I haven't any idea.

Hon. Mr. MANION: I am speaking of the interest that is shown in the statement of the railways now.

Mr. MATTHEWS: It is only part of it.

Hon. Mr. MANION: I know; but I say that interest as shown added to what you have given would be \$1,700,000,000.

Mr. MATTHEWS: Yes, and add on top of that, interest on the Canadian Government Railways and interest on \$275,000,000 and you begin to build a picture of what this true cost is—if you are going to talk about cost.

The following 12 arguments, advanced in various quarters against the Proposals, have come under our notice—the first 5 of which were set out on page 34 of our Report to Parliament.

(1) That the Dominion would lose the record of totality of National Railway System cost to the Dominion Government.

(2) That the elimination of a portion of the unpaid Government Advances from the National Railway accounts might precipitate at some future time an orgy of spending if, as and when the present subnormal economic conditions pass out of the public sight and public mind.

(3) That future wage and rate-making negotiations under prosperous conditions of railway operation might be prejudiced if the existing top-heavy Capital structure of the National Railways were reduced.

(4) That the Dominion Government as the controlling shareholder has an equity in and claim on the National System assets, represented by actual cash, because of which fact cumulative accounting for advances should remain unchanged regardless of economic conditions—national and international.

(5) That no beneficial purpose would be served by the proposed Capital Adjustment because the Canadian National Railways has no borrowing credit without the guarantee of the Dominion Government unless it be through the sale of Equipment Trust Certificates.

(6) That the Proposals would not bring about any reduction in the interest charges due to the public.

(7) That the proposed adjustments do not extend far enough to place the National System Capital Structure on a basis of potential earning power and utility value to the Dominion.

(8) That the proposed adjustments cover only the corporate units of the National System to the exclusion of the Canadian Government Railways.

(9) That the Proposals make no provision for the simplification of the capital structure by way of legal amalgamation of the corporate entities comprising the National System or by way of unification of the funded debt structure.

(10) That the adoption of the plan would prejudice the Government's position—in the capacity of controlling shareholder—in case of any negotiations in the future with a view to the transfer or sale of the properties.

(11) That no new revenue sources would be created or no reduction in taxation would be effected through the adoption of the Adjustment Proposals which are nothing more than book-keeping adjustments and the juggling of figures.

(12) That the Net Debt of Canada would be increased by over a billion dollars if the proposed adjustments were made effective.

The 12 rebuttals to the aforementioned arguments against the Capital Adjustment Proposals are hereinafter set out in their respective order. It should be noted that the first 5 rebuttals were included on pages 34 to 37 of our Report to Parliament.

(1) The National System Accounts do not now and never have purported to show the total cost to the Dominion Government because they are of necessity limited to what the Dominion Government designate as Liabilities in their

annual certificates of the auditors. The ascertainment of so-called cost to the Government would involve amongst other considerations, the treatment of the Canadian Government Railways operated as Crown Property; the absorption by the Government of the 20 per cent Freight Rate Reduction and the accumulated Deficits of the Eastern Lines since 1927 under the Maritime Freight Rates Act; the absorption of Canadian National Railways cash deficits for 1932 and 1933 and the advances by the Government since pre-Confederation days in the form of subsidies. In short, the adjustment of the Canadian National capital structure would not, we submit, preclude the Government from establishing and maintaining in perpetuity an historical record (through a simple classification of Public Accounts) covering the sums appropriated on Canadian National account for all purposes.

(2) The future protection for the Dominion of Canada against the contingency of an orgy of Canadian National Railway expenditure does not rest upon the weak premise of a top-heavy Capital structure but rather in the character and public spirit of the Board of Trustees; the extent to which the properties are operated free from community interference; the extent to which the Railway Budgets, the Financial Accounts and Auditors' Reports of the future are considered and acted upon by the designated Parliamentary authority representing the controlling shareholder. The purpose underlying the Canadian National-Canadian Pacific Act, 1933, was, presumably, to meet these conditions and in so doing to establish the fullest possible measure of protection to the Dominion of Canada in future years.

(3) The probability of prejudicing future wage and rate-making negotiations because of exorbitant earnings applied against a subnormal Capital structure under conditions of prosperity is remote at the present time as the present burden of fixed charges on the Funded Debt now held by the public and the adverse Net Income record of the National Railways, after payment of fixed charges, since amalgamation will bear evidence.

Furthermore, we submit that regardless of technical economic theories it is a matter of fact that the Capital structure has never been the primary basis of wage and rate-making negotiations by the Canadian National Railways.

(4) To contend that cumulative accounting for Government Advances must remain unchanged regardless of conditions, because of cash investment, is to ignore the actual disappearance of equity behind the original investments on the one hand and to ignore, on the other, the fact that the proposed Capital adjustment does not take away from the Government any equity in and claim on the National System assets that are actually in existence at this time. This proposed adjustment merely faces the fact of lost capital as many unfortunate shareholders in industrial and financial enterprises with excessive capital structures have been forced to do during the last three or four years in order to salvage their depleted equities to the best advantage through the protection of their financial and credit position with the public. On this point a consideration of the history of Capital adjustments of the pioneering railroads of the United States might not be irrelevant.

Furthermore, as a means of applying a balanced judgment to the matter now under analysis and consideration it is, we submit, necessary to remember that the Canadian National Railway System as an operating entity was bankrupt when brought into being.

(5) It is true that the National System has no borrowing credit apart from Government guarantees, unless it be through the sale of Equipment Trust Certificates, but this fact is the real crux of the situation.

At this point, it is we believe necessary to take into account the psychologically depressing and destructive effect on the morale of the investing and general public because of the continued presentation of a top-heavy and partially depleted shareholders' Capital structure and annual Net Income results

burdened with interest charges by the controlling shareholder for moneys advanced to replace impaired Capital.

It is our opinion that the present Governmental liability structure of the National System conveys particularly to the foreign investing public, a picture which magnifies the actual difficulties, great as they are, in which the Dominion of Canada finds itself in respect of its nationally owned railways. Furthermore, we are persuaded that foreign investors taking the present National System accounts for purposes of consolidation with the limited information available subsidy to the National System (on the basis of the National needs of Canada obtain an incorrect impression of the financial position of the Dominion as a whole.

For these reasons we believe that there is need for constructive action involving the adjustment of the present Governmental liability structure of the National System.

(6) Interest charges due the public on the Dominion Guaranteed issues can only be reduced by refunding at lower rates or by redemption through Government financing in the capacity of shareholder. Other considerations enter into the unguaranteed issues which could be enlarged upon if the Committee so wishes.

(7) The determination of a capital structure for the National System on the basis of potential earning power and utility value to the Dominion would involve the whole matter in many fickle theories and rapidly changing circumstances. Furthermore, it might involve the direct assumption of a part of the present Funded Debt by the Dominion or the payment of an annual interest subsidy to the National System (on the basis of the National needs of Canada as distinguished from Railway operations from a private profit point of view), neither of which steps would we be prepared to recommend for consideration at this time.

(8) In connection with the exclusion of the Canadian Government Railways from the Capital Adjustment Proposals we would refer to paragraph 2, page 32 of our Report to Parliament, reading as follows:—

The appropriations on account of Canadian Government Railways would remain unchanged on the Railway Books unless and until the Government decided upon a revision of the Book Value of its investment in these Crown Properties prior to amalgamation in 1923.

Should the Government desire to include with the corporate proposals the revaluation in respect of the Canadian Government Railways we would make reference to the Report made by two independent firms of investigators under the Board of Audit Act in March, 1925, wherein it was suggested that some 152 million dollars be written off the value of the Dominion's investment in these Crown Properties as at 31st December, 1923.

(9) We do not recommend any attempt at legal amalgamation of the Corporate Entities or unification of the Funded Debt Structure at this time for the reasons given on page 19 of our Report to Parliament.

(10) In sales negotiations of any enterprise the determining factors usually are sustained earning power and existing assets—not non-existent assets and top-heavy capital structures. If, at any time, this matter were under consideration, it is our firm conviction that the present Capital Structure would be prejudicial to the best interests of the National Railways and its controlling shareholder, the Dominion of Canada.

(11) No claim is made that the carrying out of the Capital Adjustment Proposals would directly add new revenue sources or would directly reduce taxation. This, obviously, would be ridiculous. However, their adoption conceivably could indirectly affect taxation by creating a barrier against unobserved accretion to the Dominion's financing costs in the future by reason of public over-estimation

at home and abroad of the adverse effect of National System financing on the Public Accounts of Canada. The proposals primarily deal with elements which we believe will in some measure be related to the future credit of the Dominion regardless of co-ordination as at present, the unification plan or any other means of administration and control. A specific case in point is the unfavourable light in which Canada has been placed, in certain investment quarters of Great Britain, as a result of the policy of carrying the old Grand Trunk Capital Stocks—through the Canadian National Railway Company—and the relative asset accounts at the face value of \$165,627,738.70 on the balance sheet of the National System since amalgamation in contrast with the findings of the Grand Trunk Board of Arbitration in which the particular stocks were declared to be without value. Whilst we recognize the absolute and inviolable right of the Dominion to show through the National System accounts these old Grand Trunk stocks at face value so long as it chooses to do so, we believe nevertheless, that this policy has in some measure contributed to the prolongation of the unfavourable impression abroad as to the credit position of the Dominion in the settlement with the old Grand Trunk junior stockholders on the basis of the 1921 arbitration findings. We would make clear that our comments in this connection do not relate in any way to the merit of the arbitration awards in themselves but solely to the psychological effect upon a certain section of the investing public in Great Britain of continuing the inclusion of these capital stocks and the relative asset accounts at par value in the balance sheet of the National System in face of the arbitration awards.

We think that these and other vital considerations have been overlooked in certain press reports and public utterances dealing only with the revenue and book-keeping side of the matter.

(12) Quite contrary to the general conception, we would make it clear that apart from current advances only 15 million dollars out of a total governmental liability on the books of the National System aggregating 1,771 million dollars are carried as assets in public accounts. This means, therefore, that the proposals would eliminate from the capital liabilities of the National System some 1,011 million dollars with a corresponding adjustment in the Dominion net debt, apart from current advances, of only 15 million dollars. The reason for this is found in the fact that some 324 million dollars representing cash advances for deficits, the equivalent of 424 million dollars in respect of interest accruals and 15 million dollars covering old Grand Trunk grants are already in the net debt of Canada. Furthermore, some 248 million dollars is represented by that portion of the capital stocks of the Canadian Northern Railway and the Grand Trunk Railway declared to be worthless in the arbitrations of 1918 and 1921 and for which portion the Dominion paid no cash on acquisition.

The CHAIRMAN: Now, gentlemen, the railway officials desire to be back at their offices for Friday, and we will adjourn to the call of the chair.

The committee adjourned to the call of the chair.

SESSION 1934
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

CONTAINING REPORT TO THE HOUSE

WEDNESDAY, JUNE 20, 1934

FRIDAY, JUNE 29, 1934

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.

Mr. J. E. Labelle, Trustee, Canadian National Railways.

Mr. S. J. Hungerford, President, Canadian National Railways.

Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals.

Mr. S. W. Fairweather, Canadian National Railways.

Mr. P. M. Anderson, Counsel, Department of Railways and Canals.

Mr. J. O. Apps, Assistant to Executive, Canadian Pacific Railway.

REPORTS TO THE HOUSE

FIFTH REPORT

OTTAWA, June 29, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to submit the following as a

FIFTH REPORT

Your Committee, in accordance with Order of Reference dated May 4, 1934, has considered the Annual Reports respecting the accounts of the Canadian National Railways and the Canadian Government Merchant Marine, and in connection therewith has examined the following witnesses:—

Hon. C. P. Fullerton, K.C., Chairman, Board of Trustees, Canadian National Railways.

Mr. F. K. Morrow, Trustee, Canadian National Railways.

Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways.

Mr. S. J. Hungerford, President, Canadian National Railways.

Mr. S. W. Fairweather, Canadian National Railways.

Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals.

Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance.

Mr. T. H. Cooper, Canadian National Railways.

Mr. O. A. Matthews, of Geo. A. Touche & Company, Accountants and Auditors.

Your Committee recommends that in future the naming of the Committee on Railways and Shipping be made as early in the session as possible, and that the Railway management be requested to expedite the submission of their reports and estimates with the least delay after the close of the calendar year.

A copy of the proceedings and evidence taken is attached hereto.

All of which is respectively submitted.

J. D. CHAPLIN,
Chairman.

MINUTES OF PROCEEDINGS

Room 231,

June 20th, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11 o'clock, a.m., in accordance with notice issued. Mr. Chaplin, the Chairman, presided. The following members were present:—

Messieurs Beaubier, Bothwell, Cantley, Chaplin, Euler, Fiset (Sir Eugene), Fraser (*Cariboo*), Geary, Gobeil, Hanbury, Manion, Power, Price and Stewart (*Lethbridge*).

In attendance were: Hon. C. P. Fullerton, K.C., Chairman of Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. P. M. Anderson, Counsel, Department of Railways and Canals; Mr. A. V. Franklin, Auditor, Department of Railways and Canals; Mr. B. J. Roberts, Department of Finance; Mr. J. O. Apps, Assistant to Executive, Canadian Pacific Railway; Mr. O. A. Matthews, of George. A. Touche & Company, Accountants and Auditors, Toronto, Ontario.

The Chairman said the Minister of Railways and Canals wished to explain to the Committee two Bills. The Minister then read letters from the President of the Canadian Pacific Railway and the Chairman of the Board of Trustees of the Canadian National Railways requesting him to have the following Bills passed by Parliament:—

1. A Bill to incorporate Canadian Communications, Ltd.
 2. A Bill to incorporate the Canadian Railway Express Company;
- the purpose of these Bills being to facilitate further economies in operating, provided the two Railways arrive at a satisfactory agreement. The Minister explained that his object in bringing these before the Committee was to obtain the approval of the Committee which might assist him in getting the unanimous consent of the House to introduce the Bills to-day. It was pointed out that members of the Committee could speak only for themselves, and that any member of the House might refuse consent. The Minister decided to introduce the Bills in the regular way.

The following witnesses were called and examined: Hon. C. P. Fullerton, K.C., Chairman of Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. P. M. Anderson, Counsel, Department of Railways and Canals; Mr. J. O. Apps, Assistant to Executive, Canadian Pacific Railway.

Some discussion took place regarding the proposed Bills, and an amendment was suggested to the effect that the Canadian National Railways should always have at least fifty per cent of the voting stock of the new companies. Mr. Anderson was asked to frame an amendment accordingly, which he did.

Comparison of the salaries paid to executives of various roads was discussed; also the policy of retaining in the employe of the Canadian National Railways men eligible for pension.

The question of obligation to bond-holders for repayment in full was discussed, with particular reference to the Toronto Suburban Railway. No decision was arrived at.

The Committee adjourned until 4 o'clock, p.m.

AFTERNOON SITTING

The Committee resumed at 4 o'clock, p.m.

The question of apportioning mail contracts between the Canadian National Railways and the Canadian Pacific Railway was discussed briefly.

The obligation of the Canadian National Railways to repay bondholders in full was further discussed.

It was moved by Mr. Hanbury, seconded by Mr. Gobeil, that the reports of the Canadian National Railways and the Canadian Government Merchant Marine be adopted. Carried.

Mr. Hanbury complimented the Government on having secured a capable Board of Trustees, and on having competent officials who have the best interests of the Canadian National Railways at heart.

Mr. Hanbury requested that the officials of the Canadian National Railways furnish answers to certain questions he had asked, and that the said questions and answers be incorporated in the evidence. This was agreed to.

On motion of Sir Eugene Fi-set, seconded by Mr. Fraser (*Cariboo*), the Committee adjourned at 5.10 p.m., to meet again at the call of the Chair.

J. P. DOYLE.

Clerk of the Committee.

MINUTES OF PROCEEDINGS

Room 231,

FRIDAY, June 29th, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.30 a.m., in accordance with notice issued. Mr. Chaplin, the Chairman, presided. The following members were present:—

Messieurs: Beaubier, Bothwell, Cantley, Chaplin, Euler, Fraser (*Cariboo*), Geary, Gobeil, Kennedy (*Peace River*), McGibbon, Manion, and Price.

The Chairman presented a draft report for approval. The said draft report was considered.

On motion of Mr. Euler,—

Resolved, "That the draft report be amended by adding thereto a recommendation that hereafter this Standing Committee of the House be named at an earlier stage of the session, and that the railway officials in future should submit their estimates more promptly."

Ordered, That the draft report as above amended be presented to the House as the Fifth Report of the Committee.

The Committee adjourned.

J. P. DOYLE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 231,

June 20, 1934.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, Mr. Chaplin, the Chairman, presiding.

The CHAIRMAN: Gentlemen, the Minister desires to explain two bills.

Hon. Mr. MANION: Gentlemen, the two railways wrote me some time ago, and in a moment I will read the letter, and when I do so if you will transpose the words "express company" for "telegraph company" that will cover the letter in both cases. The Canadian Pacific and the Canadian National have got together and they want to unite into subsidiary companies their express companies and their telegraph companies—communications as they call them—as two separate companies. I will read one of the letters they have written to me, and the other is exactly the same except that it deals with the other question. This letter is signed by Mr. Fullerton and Mr. Beatty for their respective companies the Canadian Pacific and the Canadian National, and it is addressed to me:—

We are enclosing herewith draft of Bill incorporating the Canadian Railway Express Company which our companies desire to have passed at the present session of parliament as a means of implementing the recommendation of the Royal Commission on transportation respecting the conduct of express business of the two companies.

You will observe that the proposed legislation is simply the incorporation of the new company with the requisite powers to carry on the express business of the two companies if, as and when the trustees of the Canadian National and the directors of the Canadian Pacific determine that this should be done.

We regard it as essential that the legislation should be passed at the earliest possible moment in order to expedite whatever measures of economy and efficiency our two companies may jointly decide should be adopted.

This is signed by Mr. Fullerton and Mr. Beatty. The same letter refers also to the communications company except it is communications instead of express.

Mr. PRICE: What is the date?

Hon. Mr. MANION: The date is June 5. As a matter of fact it should, probably, have been dealt with at the last meeting of the committee, but I will tell you why it was not: I wanted to have this put through as a private bill of their own, with nothing to do with the government. We had given them the powers last year to do just what they are doing, and this is all under the Act. I can read the clause out of the Act, and I will read it. Clause 16 reads as follows—this deals with co-operation between the Canadian National and Canadian Pacific railways:—

Without restricting the generality of the foregoing any such measures, plans or arrangements may include and be effected by means of,—

(a) New companies controlled by stock ownership, equitably apportioned between the companies.

They should have brought them in as a private bill, which I prefer they should do. However, they pointed out in the first place there were some heavy fees which, of course, parliament could have waived, amounting to something like \$11,000. In addition to that there were the delays that could not have been got over this session. I am willing to bring these in as government measures, but since this committee was sitting I thought I should lay these bills before this committee and have a gesture of approval in a general way. The bills are here; I have four copies; they have not been introduced, but I have them ready to introduce this afternoon if this committee agrees. I might read one of the bills for you—they differ only in so far as one deals with “express” and the other with “communications”; otherwise they are practically the same. I should like to get the general approval of the committee that I should go ahead, and if this committee approves I can introduce these bills in the House this afternoon, and even if the House should adjourn on Saturday, as there is some hope of doing, or early next week, we can get them through with the consent of the House.

The Bill on communications reads as follows:—

1. Edward W. Beatty, honourable Charles P. Fullerton, Grant Hall, Frederick K. Morrow, Ernest E. Lloyd, and J. Edouard Labelle, all of the city of Montreal, together with such persons as become shareholders in the company are hereby incorporated under the name of “Canadian Communications company”, hereinafter called “the company”.

2. The persons named in section 1 of this Act shall be the provisional directors of the company.

3. The capital stock of the company shall be forty million dollars, divided into four hundred thousand shares of the par value of one hundred dollars each.

The directors may make by-laws for creating and issuing any part of the capital stock as preference stock, giving the same such preference, priority and rights over ordinary stock or other classes of preference stock as in the by-laws may be declared.

4. The head office of the company shall be in the city of Montreal.

5. The annual meeting of the shareholders shall be held on the first Tuesday in March.

6. The number of directors of the company shall be six, one or more of whom may be paid officers of the company.

7. The directors may vote and act by proxy, but no meeting shall be competent to transact business unless at least four directors are present in person.

There is an explanatory note of the said Bill which reads as follows:—

The object of this Bill is to incorporate a communications company for the purpose of enabling the Canadian National railways and the Canadian Pacific railways to effect economies and provide more remunerative operations with respect to their respective telegraph services, pursuant to the provisions of Part II of the Canadian National—Canadian Pacific Act, 1933, if, as and when the trustees and directors of the two railways, respectively, determine that this should be done.

You will notice that “if, as and when”—this gives them power to form that company.

Hon. Mr. EULER: Will this company possibly hold the stock of the two respective companies?

Hon. Mr. MANION: I read the letter from Mr. Fullerton and Mr. Beatty requesting that we put this through; and what I suggested, Mr. Euler, before you came in, was that while the government can do this, the companies really should have done it themselves. But they did not get together soon enough. I am not criticizing them but that is my impression. At the time they put it before me they did not have time. Besides, there were fees amounting to \$11,000 which the House could have ignored or remitted; but if this committee agrees—and I agree that we should—I will introduce these bills with the consent of the House this afternoon, and we can rush them through. They are brief bills, and they are in accordance with the Act of last year. If there are any questions I will be pleased to answer them.

Mr. BOTHWELL: How will the cost be allocated between the two companies?

Mr. FRASER: Is there contemplated any public offering of stock?

Hon. Mr. FULLERTON: No.

Hon. Mr. MANION: Mr. Apps is here for the Canadian Pacific.

Hon. Mr. EULER: Judge Fullerton might be prepared to give us a little more detail regarding the purposes of the Bill.

Hon. Mr. FULLERTON: The real purpose of the Bill, of course, is to effect economy; the Acts are merely enabling Acts. Our idea is that the question of the amalgamation of the express companies and telegraph companies should be studied very carefully by committees.

Hon. Mr. EULER: Is that in prospect?

Hon. Mr. FULLERTON: That is being studied. We cannot say what the result of that study will be, but we want to be in a position if we find we can institute this amalgamation to have the machinery to put it in force without waiting for next session. These are enabling Acts; we are bound in no way; it is simply a case of negotiation, and if we can agree then we have the machinery.

Hon. Mr. EULER: That is what I wanted to know—whether the passing of the Bill was virtually to bring about the amalgamation of the express services.

Mr. PRICE: Mr. Chairman, I would like to speak for a moment upon the subject of the amalgamation of these two systems. First of all, you have a crippling of the service. In the city of Moncton we formerly had the Dominion Express Company which was the property of the C.P.R., and we had the Canadian Express Company, and a few years ago the C.P.R. was forced to discontinue its express service in the city of Moncton and, therefore, Saint John was the nearest point of contact with that service. The service since that time has not been what it was when there was competition, and, personally, I take exception to it. The same thing applies in connection with telegraph lines. We have a service at the present time in the city of Moncton. The C.P.R. stayed open until about 12 o'clock; the Canadian National service, which was formerly the Western Union, is an all night service; and I can immediately come to the conclusion that when these two telegraph lines are joined together the service will be crippled; there will be one telegraph company and one express company, and there will be no competition. And at that time the people are not going to get the service they are getting at the present time, because it must be admitted that it is the intention all the way through where the two telegraph and express companies are amalgamated to cut down the service and bring them to the cheapest possible account that will give a fairly good service, but not the service we are getting at the present time.

Hon. Mr. MANION: Doctor, is it not true that we passed a Bill last session giving the companies instruction to economize? This is their proposal it is not my proposal. You can see from the letter I read from Mr. Beatty and Mr. Fullerton that they propose that they get an enabling Act which will

permit them, not to cut down the service, but the expense. I do not suppose they will admit this will interfere with their service; I do not think they made any such admission.

Mr. PRICE: There is one other question I would like to ask in regard to this matter; no doubt there are some representatives of the Canadian National Express Company here among the officials; is it the intention, if this takes place, for one company to handle the express from the city of Moncton to Montreal covering C.P.R. points, or is it the intention to simply have what we have at the present time. For instance, suppose I wish to ship some point on the C.P.R. outside of Saint John on the line to Montreal. We ship Canadian National Express to Saint John and then by Dominion Express, C.P.R. from that point on. I would like to know if the Express Company will handle expressage directly with the one company from Moncton to any point on the C.P.R. as well as on the C.N.R.?

Hon. Mr. MANION: I did not intend going into that, but I take it they would, or the people would not be favourable to the amalgamation.

Mr. LABELLE: It would be on the same principle as the United States with the Railway Express Company serving all the railways. In the United States they have that system where one express company handles the express for the different railways.

Mr. HUNGERFORD: Shipments would be made by the one company to any point on either the Canadian Pacific or the Canadian National line.

Hon. Mr. EULER: I understand the Bill has not been distributed—it is not printed?

Hon. Mr. MANION: No, it has not been distributed because I have not introduced it in the House. I thought, probably, we would be ready to introduce it this afternoon.

Hon. Mr. EULER: Does this mean there will be a possible change of ownership, or, at least, there will be ownership of the actual assets of the trust companies and telegraph companies.

Hon. Mr. MANION: May I read clause 3. Clause 3 says: "The capital stock of the company shall be forty million dollars, divided into four hundred thousand shares of the par value of one hundred dollars each." My understanding of that is that they mean to put the assets of both companies into one company which will be a joint company of the C.P. and C.N.

Hon. Mr. EULER: Before I say anything about the control of that company, I would like to ask whether that, in any sense, comes in conflict with the clauses of the Bill we put through last year?

Hon. Mr. MANION: No, that was about amalgamation. I will read that clause. I have it marked. It says in clause 27, part 4:—

Nothing in this Act shall be deemed to authorize the amalgamation of any railway company which is comprised in National railways with any company which is comprised in Pacific railways nor to authorize the unified management and control of the railway system which forms part of National railways with the railway system which forms part of Pacific railways.

I read that clause which enabled it; it is under part 2, clause 16 in regard to co-operation:—

without restricting the generality of the foregoing, any such measures, plans or arrangements may include and be effected by means of—

(a) new companies controlled by stock ownership, equitably apportioned between the companies.

Hon. Mr. EULER: I wonder what was meant by "equitable proportion"?

Hon. Mr. MANION: I suppose in accordance with their assets.

Mr. BOTHWELL: That comes back to the question I asked a moment ago as to how this stock would be allocated as between the two companies.

Hon. Mr. FULLERTON: That point has not really been reached yet; it will be on an equal basis.

The CHAIRMAN: That is under study now.

Mr. BOTHWELL: That is on an equitable basis from the standpoint of the physical assets of the two companies which exist now?

Hon. Mr. FULLERTON: And earning powers.

Mr. POWER: Have we any idea of the physical value of the assets of the two companies at the present time?

Mr. LABELLE: We have no report on the express end; we have authority to study the physical value of the telegraph companies which is a very difficult matter, because the Canadian National has a lot of very long leases—for example, the Montreal Telegraph Company which goes to 1978. It is a very difficult matter to give the right figure, but we have two committees working on it and studying the physical value, the competition value and the earning power of the two companies.

Mr. POWER: But you have not reached a conclusion or made a report?

Hon. Mr. MANION: This is an enabling Bill.

Mr. GEARY: How long is it since the companies actually took over their express companies? The Dominion Express Company was an independent company until quite a short time ago.

Hon. Mr. MANION: Mr. Apps, how long is it since the Canadian Pacific took over the Dominion Express?

Mr. APPS: 1883.

Hon. Mr. MANION: Was it part of the Canadian Pacific from the inception?

Mr. APPS: It was a subsidiary company, yes.

Mr. GEARY: It was quite independent in a way.

Hon. Mr. MANION: When did it become the Canadian Pacific Express Company?

Mr. APPS: About five years ago.

Mr. GEARY: It is run by the Canadian Pacific people. What was the name of the other company?

Hon. Mr. MANION: The Canadian National.

Mr. GEARY: Before the Canadian National took it over.

Mr. LABELLE: The Canadian Express Company.

Mr. GEARY: I remember the Canadian Pacific being rather perturbed when it was taken over by the company and the name changed.

Mr. HANBURY: I would be interested in knowing whether the Railway Commission has any control over the rates of the telegraph and express companies and the services that they shall render. Perhaps Judge Fullerton can give us some information on that.

Hon. Mr. FULLERTON: They have over the rates, certainly.

Mr. HANBURY: Not over the services?

Hon. Mr. FULLERTON: I am not sure about that.

Mr. HANBURY: I find myself to a considerable extent in agreement with Dr. Price, but perhaps I am on a little different basis from him in that regard. I did not favour the Canadian Pacific and Canadian National bill last year; I

opposed it. I could not see the economy of the measure at that time, and I fail to see the economy of the measure at this time. I fail to see the true economy of the amalgamation of those particular services as forecast in the proposed bill. When we are considering economy, we have to take into consideration the labour that is going to be displaced, and we also have to take into consideration the lack of competitive services the people of this country are going to receive. True, I recognize the bill passed last year did contemplate such amalgamation as is now suggested; whereas the bill contemplated and forbade any amalgamation of the railway services. If I accepted these bills, it would simply be on this basis, that the legislation is now in effect, and it is perhaps not our duty to put any impediments in the way of the railway companies carrying out the wishes of parliament as expressed in the bill. But my personal view of this matter is, I am opposed to it; I do not think it is true economy, and I think that the people of Canada would suffer from the lack of competitive services in the future.

Hon. Mr. EULER: Mr. Chairman, I have always in the past, as I think many of the committee know, been in favour of doing everything possible to effect economies on the Canadian National Railways; and to that extent, I am entirely in favour of any legislation that may carry out that intention. The only thing that occurs to me in connection with the bill is this: in the new company, the only shareholders will be the C.P.R. and the C.N.R.. I take it. Is that correct? They are the only ones that may be shareholders?

Hon. Mr. MANION: Of course, they may issue capital or preference stock, so I suppose they may sell it.

Hon. Mr. EULER: I think the committee should know whether it is the intention that this new company shall consist only of the C.P.R. and the C.N.R., or whether the outside public will be invited to subscribe. I think it is of considerable importance to know that. If my assumption is correct that there shall be only those two shareholders, the C.N.R. and the C.P.R., then one or either of those will have control, I take it, especially if, as I stated, there shall be an equitable allotment of the stock. If that is done, we are almost certain that the two companies will not be absolutely equal so far as the value of their holdings is concerned. Yet I, for one, want very particularly to conserve the interests of the Canadian National, without having any prejudice against the C.P.R. I certainly should not like a condition to arise whereby this new company would be controlled by anyone other than the Canadian National. There might be equality, but I think we ought to have a little information with regard to that fact.

Hon. Mr. FULLERTON: Our idea is that the voting shall be on an equality. We never would agree to anything else. I was asked a question as to whether the Board of Railway Commissioners has control over rates and services with regard to both telegraphs and express. They have complete control.

Mr. HANBURY: Would you kindly read that?

Hon. Mr. FULLERTON: It comes under the heading of Contracts Limiting Liability of Express Companies, section 365:—

No contract, condition, by-law, regulation, declaration or notice made or given by any company or any person or corporation charging express tolls, impairing, restricting or limiting the liability of such company, person or corporation with respect to the collecting, receiving, caring for or handling of any goods for the purpose of sending, carrying or transporting them by express, or for or in connection with the sending, carrying, transporting or delivery by express of any goods, shall have any force or effect unless first approved by order or regulation of the board.

(2) The board may in any case or by regulation—

(a) determine the extent to which the liability of such company, person or corporation may be so impaired, restricted or limited; and

(b) prescribe the terms and conditions under which goods may be collected, received, cared for or handled for the purpose of sending, carrying or transporting them by express, or under which goods may be sent, carried, transported or delivered by express by any such company, person or corporation.

And the same position applies to telegraph companies.

The CHAIRMAN: Will you explain Mr. Hanbury's question as to the possibility of outside subscriptions?

Hon. Mr. FULLERTON: Our idea is that the stock will be held solely by the two companies. We have no idea of having public subscriptions in any way; it is purely an amalgamation of the express facilities of the two companies.

Hon. Mr. EULER: As the bill is framed, would it be possible to offer the stock for public subscription?

Hon. Mr. FULLERTON: I suppose it would, as the bill is framed.

Hon. Mr. EULER: Don't you think it should be confined to the two companies, and made definite?

Hon. Mr. FULLERTON: It could be made definite, of course.

Hon. Mr. EULER: I think it should be.

Hon. Mr. FULLERTON: We never had the slightest idea of bringing the public in in any way.

Hon. Mr. EULER: I think the bill should say that. You cannot tell what may happen in the future. They may offer some for public subscription and thereby give control to one railway company or the other. Of course, so far as I am concerned, I would not object to the Canadian National securing control.

Mr. POWER: I do not see how you could prevent the C.P.R., which had fifty per cent of the stock, from offering that stock to the public, if it so desired.

Hon. Mr. EULER: This is to prevent their getting control.

Mr. POWER: It would be difficult to prevent any issue of stock to the public because the C.P.R. will always have its portion, and presumably they could do what they liked with it; they could do what they liked with that portion which remained in their treasury; they may issue it in the same way as they issue other stock to their shareholders.

Hon. Mr. EULER: Suppose at the outset you did not issue all the stock, but held a certain amount of it in the treasury, and later on the Company decided to offer that stock for public subscription, the balance of that stock would give control to either the C.P.R. or the C.N.R.

The CHAIRMAN: Voting control.

Hon. Mr. EULER: Exactly; I think that should be provided for.

Mr. BOTHWELL: I should like to ask a question in regard to those two departments, the telegraphs and express departments. Have those two departments been losing the Canadian National and the C.P.R., or have they been paying their way? I think the committee would like to get information in connection with that.

Mr. FAIRWEATHER: That is a very difficult question to answer. Of course, we cannot answer for the Canadian Pacific. These are ancillary services and it entirely depends upon what inter-corporate charges you make as to whether you show them as a profit or loss. For instance, take the express. Un-

doubtedly we make a profit out of the express, if you look upon it as an ancillary service; but if you charge the full overhead charges against the express, I would not say it would make a loss, but it would come very close to it. Now, with regard to the telegraphs, you have a slightly different condition. The railway requires an enormous amount of telegraph services to carry on its own business, and once having set that up, it has the capacity to carry on a commercial business on top of it. Carried on in that way, as a by-product, the telegraph business as a commercial telegraph business, as a by-product, is profitable; but you can see how impossible it is to segregate, for instance, the telegraph line as between railway use and commercial use. You must have a telegraph line in order to operate the railway.

Mr. PRICE: You have your own private lines for that?

Mr. FAIRWEATHER: The pole line is the same. We use the same pole line; that is, the wires on that line are partly exclusively for the railway, and partly joint for commercial and railway use and partly exclusively commercial. It is a very involved situation, really; but if you charged on a full commercial basis, you would then have to credit to your commercial telegraph operations, the value of the railway services rendered. All I can say in regard to the telegraphs is, that viewed as a by-product, our telegraph operations are, naturally, profitable, or we would not be engaged in them.

Hon. Mr. EULER: Don't you make a definite charge for your services to the railway?

Mr. FAIRWEATHER: No; the way we carry that is the expenses of train despatching services and things of that character, operations peculiar to the railway, go into the telegraph expenses of the Canadian National Railways, but against that is credited the commercial revenue.

Hon. Mr. EULER: No revenue is obtained from the railway?

Mr. FAIRWEATHER: No revenue is charged; we do not do that. We do not set up an inter-corporate account of revenue where we would say to the telegraph company, you perform so much service, and therefore, you bill us with that service and we will pay it. All we say to them is, we will pay your expenses, and you give us the services we need.

Hon. Mr. EULER: Do you mean to say the expenses of carrying the telegraph end of the business is charged against the railway, or paid by the railway?

Mr. FAIRWEATHER: They are all in our operating expenses, both revenue and expenses.

Hon. Mr. EULER: For the railways?

Mr. FAIRWEATHER: Both revenue and expenses. It is included in our gross revenue, just the same as passenger fares and the expenses are included in our expense accounts.

Mr. GEARY: In regard to the express end of the business, is not this what happens—I am not very clear on it, but I think this is right—you charge the express car for part of the train haul so much a train mile; you charge for the use of the conductor on the passenger train that carries the express car; you charge for the use of the station, and so on, and you arrive at a loss, or at least, I judge you do, because you asked for an increase of rates.

Mr. FAIRWEATHER: You see sir, the point there is that in setting up a charge for what we call express privileges, for the purposes of rate control and things like that, we naturally would charge against the express, the overhead charges, otherwise we would be setting up a very false position; but when you ask me whether the express is profitable or not, I say I cannot view the express except as part of the railway. It might be put this way, we either have an express or we have no express, as between those two pictures, the having of an

express or not having an express, the express is profitable. The same thing applies in regard to the telegraphs. As between having a commercial telegraph business and not having it, the telegraph business is profitable; but if you charge it with its full portion of overhead, then it is on a narrow margin or actually unprofitable.

Mr. HANBURY: What estimate, if any, has been made of the economies that will be effected by this amalgamation?

Mr. FAIRWEATHER: They are being investigated, naturally. Preliminary estimates have been made, and we are now going over them and checking them up in greater detail, and I should say the thing is in the course of study.

Hon. Mr. MANION: Even if this bill goes through, you may not come to an agreement with the C.P.R.? It may not be carried out. Both companies are studying the question. This bill is to permit you to come to the position where you can unify.

Mr. HANBURY: I think if we are being asked to give consideration to this bill, we should have information as to what economies will be effected, what percentage of savings would come out of the total cost of operations, and particularly what labour is going to be displaced.

Hon. Mr. FULLERTON: It would be impossible to give that information, because we have not arrived at it yet. As I pointed out, the bill is merely an enabling bill. We have to agree first, before anything can be done.

Mr. HANBURY: We are being asked to support a measure the effect of which we do not know.

Hon. Mr. FULLERTON: All I can say is, we naturally would not make an agreement unless we can make substantial economies.

Mr. POWER: Take it from the other angle. Surely the C.P.R. officials and the C.N.R. officials can tell us the number of personnel involved; that is to say, how many persons are employed in the Canadian National Telegraph services, and how many in the Canadian Pacific Telegraph services, how many employees are in the Canadian National Express services, and how many there are in the Canadian Pacific Express services. I think that information should be readily available, and the natural corollary is how many will be displaced?

Hon. Mr. MANION: May I just deal with one point in reply to Mr. Fairweather, and I should like him to listen to this. This is some information given to Mr. Fairweather before the Duff Commission, a copy of which was sent by the chairman to each member of the committee. This is a rather interesting excerpt from the evidence given by Mr. Fairweather at that time.

I read this only yesterday because I expected a discussion on those two bills. I noticed that Mr. Fairweather made an estimate to the Duff commission as to the possible savings, and he said, on the basis of the 1931 traffic, the savings in express by some such methods as this, would be \$500,000, and on the telegraphs, \$600,000, and on a normal traffic basis, between \$600,000 and \$700,000. I mentioned that because it gives a rough estimate. I do not presume Mr. Fairweather went into it very fully; anyway, it is his own estimate, made before the Duff commission.

Mr. FAIRWEATHER: Yes, these are the figures I gave to the Duff commission. They are subject to the same reservation I explained the other day, as I explained it to the commission. I made that estimate, yes.

Mr. BEAUBIER: You undoubtedly took the labour question into consideration, and how many employees would be affected.

Mr. FAIRWEATHER: Every cent is labour. Speaking as an economist, every cent of that eventually is labour.

Hon. Mr. EULER: Maintenance of lines?

Mr. FAIRWEATHER: Every cent of that eventually would appear as labour.

Hon. Mr. MANION: Let me get that clear. You have two offices down the street, and you are paying \$500 a month rent for each of them. If you amalgamated and went into one office, you would save \$500. How do you figure that as a labour cost?

Mr. FAIRWEATHER: It really becomes an academic question with regard to that point. But eventually, it comes down to the definition of wealth and what constitutes wealth.

Hon. Mr. MANION: We are not discussing economics as an abstract question; we are discussing the savings made in the telegraphs and express, and I do not get that. I know something about economics, but I do not see where you figure, if you save \$500 a month in office rent that it is a saving on labour. When Mr. Beaubier speaks about labour, he is talking of the men who are working in the telegraph system.

Mr. HANBURY: That is my interest.

Hon. Mr. EULER: I must agree with the minister on that. It is not just a matter of dollars and cents, it is the number of workingmen.

Mr. GEARY: Material and labour.

Hon. Mr. EULER: I should like to mention this again. I think we should have some provision by which it shall never become possible that the holdings of the Canadian National Railways will be less than 50 per cent of the stock.

Hon. Mr. FULLERTON: A clause to cover that point could easily be added.

Mr. GEARY: Fifty per cent of the voting stock.

Hon. Mr. EULER: The control.

Hon. Mr. FULLERTON: We would never enter into an agreement under any other conditions.

Hon. Mr. EULER: I agree with you, but it is just as well to have the statute say so. I think the statute should provide that the Canadian National will never have less than fifty per cent of the stock.

Hon. Mr. MANION: Since you have brought that up, I agree with you; Mr. Anderson has been trying to draw up a clause in that regard. If it is agreeable to the committee, I should like to do this; he will try to draw a clause that would cover that point, and an amendment could be offered in the House along that line; but I do not think the committee should be put in the position, in view of last year's legislation, of refusing to facilitate co-operation. In view of that, it seems to me that the committee might give unanimous consent to the introduction of those bills this afternoon. I should like to introduce the bill this afternoon, but I have to get the unanimous consent especially if we are going to get it through this year. If the committee gives its unanimous consent, we can have the discussion, and so far as I am concerned, we will endeavour to have all the information that is asked for to-day, and any other information we can get. This is not my bill. These bills are sent to me by Mr. Fullerton and Mr. Beatty—

Hon. Mr. EULER: As minister you have to sponsor them?

Hon. Mr. MANION: That is the point, or have them brought in as a private bill. If it had been earlier in the session, I think I should have insisted that they bring them in as private bills, but it is so late in the session that it is going to be quite difficult to get them through the house this session, unless it is done by the unanimous consent of the house. I think the committee might agree to my introducing them this afternoon, and on the second reading, go into committee of the whole—

Hon. Mr. EULER: I see no objection.

Mr. POWER: I see no objection to their being introduced by unanimous consent.

Hon. Mr. MANION: I should like to present them this afternoon, and after that the bills can be studied in committee.

Hon. Mr. EULER: We cannot speak for the other members of the house.

Hon. Mr. MANION: I appreciate that. We would not need to spend very long on them. It is a matter of time saving, and I should like to introduce them this afternoon.

Mr. HANBURY: I am sorry, but I am still of the opinion that we should ask why these bills should be brought before this special committee rather than the railway committee; because if they are being brought before us, we are supposed to have some information as to their effect before we can bring in a report, and I do not think we should approve of them before we have information.

Hon. Mr. MANION: We are not approving them.

Mr. HANBURY: When they come before the house with unanimous approval?

Hon. Mr. MANION: It is not unanimous approval.

Mr. POWER: Only consent to approve.

Hon. Mr. EULER: I take it you are not going to make a report approving this bill, are you?

Hon. Mr. MANION: I had hoped that there would be unanimous consent, and that could be incorporated in the report. I had not foreseen the opposition of Dr. Price and Mr. Hanbury. Since there is opposition, I do not wish to do that; but in view of the opposition I should like to have the committee agree to my introduction of them as soon as possible. So far as they are concerned, they have no particular objection to their getting unanimous consent to their introduction; otherwise, I have to give 48 hours' notice.

Hon. Mr. EULER: Objection to introduction would only mean a delay of a day or so.

Hon. Mr. MANION: That is all; you are not approving of it in any way, Mr. Hanbury, or Dr. Price, or anybody else.

Mr. HANBURY: My point is this, Mr. Chairman, until we can get all the information that we can on the merits of this bill, I feel justified in taking any means that I have at my disposal.

Hon. Mr. MANION: That is your privilege.

Hon. Mr. EULER: You do not wish to oppose its introduction?

Hon. Mr. MANION: I could have asked for it. I brought it up to the committee because this committee was sitting. Somebody asked why it was not taken before the other committee. The reason is that it was not sitting. This committee happened to be sitting, and I thought I should bring it up here. That is the real reason.

The CHAIRMAN: I do not quite understand. This bill has to be reported by some committee, and I cannot see how the minister can introduce it without the committee reporting it.

Hon. Mr. EULER: No, we do not report it.

Mr. POWER: It is not before this committee at all. We are discussing it only in an academic way.

The CHAIRMAN: That is satisfactory to me.

Mr. HANBURY: Is it the intention to have this bill referred to this committee?

Hon. Mr. MANION: I had not given it any thought. I had rather thought that since the legislation was passed last year, and if I introduced it in the house, I would probably do as I did with the bill last year, I put it before a committee of the whole house, as a matter of time saving. If we had plenty of time, I would have no objection to it going to a committee. We have no more interest in this bill than any other member of the committee.

Hon. Mr. EULER: Was it your intention to introduce it here and let it go to the committee of the whole?

Hon. Mr. MANION: Not here. I had intended to give it second reading, and then bring it before the committee of the whole.

Hon. Mr. EULER: Ask it to be done by unanimous consent, and we could then decide whether we wanted to discuss the merits in committee of the whole, or whether we will bring it before the special committee.

Mr. POWER: Will you need a resolution?

Hon. Mr. MANION: If I do not get unanimous consent, I will need a notice.

Mr. POWER: Unanimous consent that does not do away with the resolution feature of it. Is not this a money bill in some sense? Suppose the physical assets of the Canadian National Railways are not sufficient to make up its share of half the shares of the stock. If that is so, the Canadian National may be obliged to supply that much money to make up the deficiency in physical assets, and therefore it might be a money bill.

Mr. ANDERSON: It would be a company matter, and the question of financing would be dealt with next year by a private bill. There is no money in this at all; it is purely a corporate transaction; and any money the Canadian National may have to spend and have not got, they have to come to parliament and get authority for it. There is no authority in this bill in that regard. It is merely an incorporation of two companies, and does not give any authority otherwise.

Mr. POWER: Don't you think they will be committed to an expenditure of money in the transfer of assets?

Hon. Mr. MANION: I will probably propose introducing it this afternoon. It would then be up to the house. I think we can dispense with any further discussion this morning, but I should like to introduce it this afternoon.

Hon. Mr. EULER: And give it first reading?

Hon. Mr. MANION: Yes.

Hon. Mr. EULER: I wonder if we could have a draft of that clause read?

Mr. ANDERSON: This is a very rough draft, and it would be subject to the approval of the railways. I am suggesting adding a new sub-clause to clause 3, reading as follows:—

3. (2) No part of the capital stock of the company shall be offered, sold or given to the public but may only be acquired or held by the Canadian National Railway Company and the Canadian Pacific Railway Company in addition to the directors of the company and the voting control of the stock of the company shall be equally divided between the Canadian National Railway Company and the Canadian Pacific Railway Company.

Hon. Mr. EULER: That does not exactly meet with my suggestion. I would not mind if the Canadian National had a majority; but I want to guard against the Canadian National ever having less than 50 per cent.

Mr. GEARY: I think that is satisfactory.

Hon. Mr. MANION: The C.P.R. will want to be in exactly the same position.

Hon. Mr. EULER: I suppose so, yes.

Hon. Mr. MANION: If that is satisfactory, we can dispense with any further discussion, and I will probably introduce it this afternoon.

Mr. POWER: May I ask this question: Mr. Fairweather said a few moments ago, it was impossible to distinguish between the profits made on telegraphs in the ordinary operations of the railroad, and the commercial business. Is there not a separate organization for the Canadian National Telegraphs?

Mr. FAIRWEATHER: Yes.

Mr. POWER: What jurisdiction has the vice-president or the president of the Canadian National Telegraphs over train despatches?

Mr. FAIRWEATHER: There is no president of the Canadian National Telegraphs.

Mr. POWER: Vice-president in charge of the Canadian National Telegraphs.

Mr. FAIRWEATHER: He would have nothing whatever to do with the train despatchers, no authority over them at all.

Mr. POWER: None?

Mr. FAIRWEATHER: No, but the maintenance of the wires over which each man sends his message is under his charge.

Mr. POWER: That is under his charge?

Mr. FAIRWEATHER: Yes.

Mr. POWER: And separate accounts are kept as to the maintenance and charged to the Canadian National?

Mr. FAIRWEATHER: The costs of maintenance of telegraph facilities are all kept without regard to whether they are for railway operation or commercial operation. You could make an arbitrary accounting subdivision.

Mr. POWER: The jurisdiction as to personnel only extends over telegraph operators engaged in commercial telegraphs?

Mr. FAIRWEATHER: Partly; but there is another group. We have quite a large number of telegraphers who are engaged in carrying on message business for the railway, distinct from the despatching of trains. For instance, the officers at the various centres are continually sending messages between offices. We have found it efficient to segregate that business from the commercial business as far as transmission goes; there are several operators doing nothing but that. They come under the general manager of telegraph.

Mr. POWER: Though they are engaged only in the business of the operation of the road?

Mr. FAIRWEATHER: Yes.

Mr. POWER: They do not do any commercial business at all?

Mr. FAIRWEATHER: Those particular men do no commercial business at all.

Mr. GEARY: I see in your maintenance of way, operating account, telegraph and telephone \$3,690,000 and in your maintenance of way they charge to telegraph and telephone one million. You aggregate those amounts also in the equipment, I suppose, do you?

Mr. FAIRWEATHER: Yes. Oh, no, maintenance of equipment—maintenance of telegraph equipment would go in maintenance of way and structures. Our equipment maintenance is entirely the rolling stock of the company and the machinery to maintain it.

Mr. GEARY: That would be carried in some other accounts?

Mr. FAIRWEATHER: Yes, it is one of our general accounts.

Hon. Mr. MANION: Would you permit me to make one little statement in view of some statements that were made in the press. You will remember that at our last meeting Mr. Fullerton gave a statement showing that the officers of the railway drawing \$15,000 a year had been reduced from thirty-six in 1930 or 1931 to six at the end of 1933. Since then I have noticed in two or three papers the suggestion—rather an unfair one to my mind to this committee, to parliament and to the government—that there might be an attempt being made to so wipe out the highly paid officers of the Canadian National for the purpose of helping the Canadian Pacific. That is a ridiculous suggestion; but in view of that, however, I took the matter up with Mr. Beatty to learn the number of men on the Canadian Pacific who received over \$15,000 a year, and this morning Mr. Beatty writes me—I will not put the whole letter on record because it is marked personal, but I will give the important paragraph which contains the information required:—

Exclusive of the chairman and president, five officers of this company are in receipt of salaries of \$15,000 or more per year, and that the aggregate of these salaries amounts to \$96,000.

In other words, except for the president and the chairman—I presume the president surely gets more than \$15,000—

Hon. Mr. EULER: I am sure he does.

Hon. Mr. MANION: But if the chairman and president get more than \$15,000 the Canadian Pacific then have seven getting more than \$15,000.

Hon. Mr. EULER: In comparison with five—

Hon. Mr. MANION: —six of the Canadian National. I thought it was a good thing to get that out in view of the attitude taken by, I think, an unreasonable section of the press—not of the political press.

Hon. Mr. EULER: I suppose he does not say what the comparison was between the salaries of the president of the C.P.R. and the former president of the Canadian National?

Mr. BOTHWELL: They received over \$15,000 in 1930. He does not say how many there were then.

Hon. Mr. MANION: No. The statement was made in a financial paper—one which claims to be non-political—that we were proposing to do damage to the Canadian National railways by too much economy.

Hon. Mr. EULER: And have less efficient men?

Hon. Mr. MANION: And incidentally within six inches of this editorial was an article demanding greater economies.

Mr. POWER: You did not ask Mr. Beatty what were the salaries paid to officers of the C.P.R. in 1928 and 1929?

Hon. Mr. MANION: No. I understand that they have been very severely cut down.

Mr. POWER: It might be interesting to find out what they were in 1928 and 1929 when times were good.

Hon. Mr. MANION: I understand they have taken about the same cut as the Canadian National.

Mr. HANBURY: I think I made some remarks with reference to this particular matter at a previous sitting, and I believe that the argument made at that time was that the six officers of the Canadian National railways receiving over \$15,000 received a total of \$117,000, and I pointed out at that time that it was less than 1 per cent of the operating revenue of the Canadian National railways. As a matter of fact, it is considerably less than that; it is approximately .80. I have just received from the Interstate Commerce Commission

a statement which shows the ratio of the aggregate annual salary group to operating revenue. In table 2, reporting division number 1, executive general officers and assistants, class 1 steam railways, including switching and terminal companies, who are not restricted, as you will note, to the five or six senior officers of the railway company—it shows that the ratio to operating services was in 1933, 1·08, in 1932 1·45, and in 1931, 1·30.

Hon. Mr. MANION: Are those percentages?

Mr. HANBURY: Percentages as of the operating revenue. In 1932 it was 1·45. I was just making the comparison with the Canadian National railway. Their percentage to operating revenue is approximately ·80. In that connection I also note that—

Hon. Mr. MANION: May I ask one question in that regard? Aren't you going down below a \$15,000 salary?

Mr. HANBURY: I am going down below \$15,000, but there are more included in going below \$15,000 than we are including in our comparison here for the Canadian National railways.

Hon. Mr. MANION: Can you make a comparison?

Mr. HANBURY: I understand, Dr. Manion. But if the comparison was made on the basis of the information we have from the Canadian National railways, it would be, I realize, different; but I am putting this for the purpose of the record. The point I wanted to bring out is this that of these class 1 railroads in the United States, as at March 1, 1933, two of the railroads showed that their senior executives were receiving between \$80,000 and \$90,000 a year, five of them were receiving between \$90,000 and \$100,000, one was receiving between \$100,000 and \$110,000 and one was receiving between \$120,000 and \$130,000 a year.

Hon. Mr. MANION: That is in 1928?

Mr. HANBURY: That is in 1933, and I am putting these figures on record to substantiate the argument I advanced the other day that I do not think the fact that conditions have made it possible to grind these men down where they will take almost any salary rather than lose their positions, in view of the fact that this is a national system, that we have any right to be proud of that fact.

Hon. Mr. MANION: I do not want to get into any argument about it, especially at this stage. I think we have had enough politics.

Mr. HANBURY: I am not talking politics.

Hon. Mr. MANION: I know, but I have a statement made by the railway company itself showing that at the end of 1933, in the Canadian National railway there are forty-three officials receiving over \$10,000. I give this because the figure six over \$15,000 did look low, although it agrees with the Canadian Pacific. I want to put that fact on record associated with the facts I have stated.

Mr. HANBURY: In that connection, Mr. Chairman, the other day I asked Mr. Fairweather if he would procure some figures showing the ratio of the Canadian National in comparison with class 1 railroads as to executive salaries.

Mr. FAIRWEATHER: Well, the question asked was: what relationship to the salaries of the higher paid officials of the C.N.R. bear to the gross revenue, and how does this compare with other class 1 roads.

Answer: The most nearly comparable group of employees including higher paid officials for which statistics are prepared of class 1 roads, is executive

officers and staff assistants. Further, the statistics do not segregate salaries of this group as between railway operation and capital expenditure. With this qualification the comparison for 1933 on various basis is as follows:—

	Class 1 U.S. Roads	C.N.R.
Salaries of Executive Officers and staff assistants as to percentage of—		
Gross Revenues.. . . .	2.00	2.16
Operating Expenses.. . . .	2.75	2.24
Total wages paid, including capital expenditures.. . . .	4.41	3.32

Hon. Mr. EULER: Twenty-five per cent below the general average.

Mr. FAIRWEATHER: On that last basis. You see it is difficult to get any single basis that you can say is absolute, but there is the answer, and that is all the answer. On a revenue basis we are a little higher than class 1 roads; on an expense basis we are lower, the reason being that our operating ratio is high due to our lack of traffic density.

Hon. Mr. MANION: May I ask a question in that regard; I think it is better that we should have the point cleared up: are you satisfied that those whom we call at present executive, general officers and assistants are properly cared for and the proper efficiency of the Canadian National railways kept up? Are you satisfied that to-day the Canadian National railways are properly cared for in regard to its executive officers in comparison with other railways?

Hon. Mr. FULLERTON: I am thoroughly satisfied.

Hon. Mr. MANION: I think that should go out because I do not think any impression should go abroad that in some way the Canadian National is being starved in regard to its officers, or in any other way.

Hon. Mr. FULLERTON: I have had no complaints whatever. The officers are loyal, and they are willing to help out all they can. They have accepted the reductions in a good spirit, and they all feel they are helping the country and helping the railroads. There have been no complaints; I have had no complaints—everybody is working efficiently and well and everybody has his heart in the success of the railway.

Mr. HANBURY: Probably I am responsible for most of this discussion. I do not want to give the impression that a man who is getting \$20,000 a year is starving to death, but I am frank to say that the impression I received from Dr. Manion was that the Canadian National railways were cutting deeper than other competitive railways. The figures we have had submitted to us this morning would confirm that statement; but I am simply basing my claim on the statement that under competitive conditions we should not expect to pay our executives less than competing railways if we expect the same efficiency from them.

Hon. Mr. MANION: You say that the figures submitted this morning confirm your attitude? Which figures?

Mr. HANBURY: No, I said, Dr. Manion that the figures submitted this morning confirmed your statement that we have cut deeper than other competitive railways.

Hon. Mr. MANION: What figures have you got that confirm that we cut deeper?

Mr. GEARY: On the executive.

Hon. Mr. EULER: The figures Mr. Fairweather gave.

Hon. Mr. MANION: Mr. Fairweather used one basis when the company was on a better basis. On the other basis—

Hon. Mr. EULER: Which he thought was the fairer basis.

Hon. Mr. MANION: He would.

Mr. HANBURY: May I repeat that the figures given by Mr. Fairweather this morning with regard to ratio to operating was 2·75 for class 1 roads and 2·24 for Canadian National.

Mr. FAIRWEATHER: That was expenses.

Mr. HANBURY: And then with regard to total wages paid the ratio is 4·41 for class A roads and 3·32 for the Canadian National.

Hon. Mr. MANION: I did not hear those figures.

Mr. GEARY: Yes.

Mr. FAIRWEATHER: I will repeat them, sir. I say again it is extremely difficult to find any single basis of comparison which is sound, but on a gross revenue basis class 1 roads show 2 per cent and C.N.R. 2·16 per cent.

Hon. Mr. MANION: That is higher than the percentage in the revenue of the C.P.R.

Mr. FAIRWEATHER: On operating expenses, class 1 roads 2·75 per cent, C.N.R. 2·24. Now, the explanation of that is that our operating ratio is a good deal higher than the average class 1 road and that again is due to the fact chiefly that we have less density of traffic; we have greater overhead to do the same amount of business proportionately than they have. On the total wages paid, including capital expenditures, class 1 roads 4·41 per cent, Canadian National 3·32 per cent.

Hon. Mr. MANION: I did not hear the last figures, but I would not admit from those figures that the Canadian National was in any way being starved—I do not mean literally starved—in regard to salaries paid or in regard to executive services.

Mr. HANBURY: Would you suggest that the salaries of these executives are comparable with other class 1 railroads throughout America?

Hon. Mr. MANION: Mr. Hanbury, according to the best information I could get, yes.

Mr. HANBURY: As a matter of fact, that was not the point I was coming to, because Dr. Manion has been making the statement that we have done much better.

Hon. Mr. MANION: Now, Mr. Hanbury is again mixing up statements in regard to this. What I stated on other occasions—not here, but on other occasions is that we did cut down by some \$2,000,000 unnecessary officers who could be eliminated without interfering in the efficiency of the road, and I adhere to that statement. That does not affect these figures. At the present time my submission is that the Canadian National is treating its officers exactly the same as other class A roads, and I do submit at the same time—and I am not saying this for political effect—that three years ago or four years ago the Canadian National had far too many highly paid officers who were not earning their money.

Mr. HANBURY: That was evidently the condition in every class 1 railroad.

Hon. Mr. MANION: I am not going to argue about other roads.

Mr. HANBURY: I am not arguing that point; I am arguing the comparison.

Hon. Mr. EULER: I think what you want to do with regard to salaries is to keep a proper morale among the officials so that they will feel satisfied.

Hon. Mr. FULLERTON: That is the whole point.

Hon. Mr. EULER: And in addition to that to make reasonably certain that the wages we pay are not so low that our men will be taken away by competitive roads.

Mr. HANBURY: Mr. Chairman, there was another matter I brought up the other day and that was with regard to the question of the number of employees over pensionable age maintained on the payroll. I would like that information.

Hon. Mr. FULLERTON: The question asked is: what number of men are now in the service who are eligible for pensioning and what would their pensions amount to. The answer is 682 men and the amount is \$413,888.

Mr. PRICE: Which pension is that? Is that the Canadian National pension?

Hon. Mr. FULLERTON: All the pensions under all plans.

Mr. HANBURY: Mr. Chairman, in connection with that statement I must take exception to maintaining these men on the National system owned by the government. I am making a distinction. What the Canadian Pacific does is a matter between them and their employees, but this is, after all, a government owned railway, and we are retaining 682 men on the payroll so that there are 682 men who should be on the payroll and are not there. I think that the purpose of this parliament and of the people of Canada in establishing and maintaining a scheme to assist pensions is on the basis and on the theory that when these men have reached a pensionable age they will remove themselves or be removed in order that others may take their place. I am frankly critical of maintaining these men on the payroll, and I would like to have some assurance that the practice will be discontinued.

Hon. Mr. FULLERTON: If I may be allowed to make a statement. Our duty as I conceive it is to make economies—to save money to the country and to the railway. We may have a man who is efficient and has special qualifications for his position. If we let him out we must pay him a pension and we must employ a new man and pay him full wages. As I conceive it, if the man is efficient, if he is able to carry out his duties we should continue him in the service. If the position is to be abolished then, of course, we put him on pension; but that is the present policy of the railroad. If that policy is to be different, of course, that is another question; but our whole idea—at least, my whole idea is to save money, and that is the only reason we continue these men.

Mr. GEARY: And to maintain efficiency.

Hon. Mr. FULLERTON: Yes. Ordinarily I would say that in a sense it might be right to pension every man at 65, and yet I can see many cases where we have men of peculiar qualifications, exceptionally good men who should be continued, it would be a mistake for the railway to let them out as long as they are efficient, healthy and able to do their job.

Hon. Mr. MANION: If you let them out you have to pay two salaries.

Hon. Mr. FULLERTON: Yes, two salaries; but under present conditions I conceive it to be our duty to save wherever we can, and that is the whole object of our present policy.

Mr. HANBURY: Mr. Chairman, I do not wish the chairman of the board to think I am criticizing the trustees of the board. They were put in there for the purpose of effecting economies; but I am going to point out to him that we are a committee of parliament and I believe we are here to give our opinions and to give him, if possible, guidance, recognizing the authority he has in this matter; and I believe it is our duty to give him guidance. I am not going to argue that there should be no exceptions to a rule that a man should be retired after he is 65 years of age; I appreciate the economies of \$413,000 a year which he is effecting; but what I am claiming is that they are not real economies from the national standpoint. I am not talking of the National railways; I am talking of the people of Canada; and my suggestion to him is this, that the people of Canada through their pensions scheme and through the assistance they are giving to the Canadian National railway in their pensions are asking

him to carry out the intent which is that men who reach the age of 65, and there is no particular or special reason why they should be maintained in the service, should be retired so that other men who are to-day walking the streets and are being maintained by the people of Canada may have an opportunity to gain employment for themselves.

Mr. PRICE: Mr. Chairman, I have listened with considerable interest to what Mr. Hanbury has said, and I was just wondering if it had occurred to him that there are some of these men who are over 65 years of age who wish to be retained.

Mr. HANBURY: They all do.

Mr. PRICE: I do not know whether he would be a better judge as to whether they should be retained than the management of the road. As Mr. Fullerton said, there are instances where men reach an older age than 65, are capable men and the railway may wish to retain them. I am somewhat familiar with railway matters, as I live in a railway centre, and I do not think there are many instances where men have asked for retirement when they have not got it when they are fully entitled to it.

While I am on that subject there is a very unfortunate position that some men who, through some small technicality, are kept out of their position. I know of several instances where there has been a slight break as it is termed in the service—it may be a month or two—and it has caused that employee some trouble. I have known of stenographers—one in particular—who was kept out of a pension on account of some technicality. I know of instances where men have served the required time and who have not reported back inside of one year and the management have taken the ground that they automatically dismiss themselves. Even if on sick leave, they automatically dismiss themselves, and their case cannot be taken up. Now, on the other hand, there is another situation: we have instances where pensions are granted where there is no rule or regulation for the granting of those pensions. We have cases of men with breaks in their service, and if they happen to have the favour of the management of the railroad in certain quarters and a recommendation is made, these men are given a pension. It may be small, but they are given a pension. Now, they are not entitled to pension through the Intercolonial and Prince Edward Island provident fund; they are not entitled to the pension through the Canadian National Railways superannuation fund, but they are given pensions. Is that not a fact? That is going on while there are a number, as I say, who through some slight technicality are kept out of their pension. That is unfortunate. I do not know what is the policy of the management in that regard, whether that is to continue; but it certainly gives wide powers where the management have that privilege. There are cases where you have a man in the service whom they think is entitled to a pension although he is not entitled to one, and where he has had breaks in his service, yet he is given a pension.

Hon. Mr. FULLERTON: I may say that we have certain pension rules that have been laid down, carefully considered and passed. Those pension rules are adhered to strictly. Any question of a break in a man's service is considered by a committee that considers each case carefully. After a case is dealt with it has to go before the board and all the facts are threshed out. There is no suggestion of favouritism. I do not know—I cannot speak for what happened before—but as far as I know there is no question of favouring any man. We do this; we occasionally grant a small gratuity—not a pension by any means—but there are some cases where, for instance, a man is killed and his wife and family are left in very poor circumstances. That has been done and is done in hard cases. But as far as the pension rules are concerned, as far as I know they are strictly adhered to.

Mr. PRICE: Mr. Chairman, it might not properly be termed a pension, but we might call it a gratuity or something, but the railway does contribute to these men. That cannot be denied. That has been done, and I have got the proof of it right here.

Mr. POWER: Let us have it.

Mr. PRICE: It has been done, and it is unfortunate. I have nothing against those who are getting it; I am glad they are getting the money; but there are cases of men who through some slight error of some description—a little shortage of time—that are kept out of it.

Hon. Mr. FULLERTON: I perhaps made too wide a statement. I said that gratuities were only granted for a month or so. As a matter of fact, sometimes in hard cases a gratuity of \$25 or \$30 a month is granted for a limited period—generally one year.

Mr. PRICE: Mr. Chairman, where is the excuse for giving the money to some and not to others. There are hard cases all through. We find none of these—contributions I may term them—going to any of the lower men, it is usually an official.

Hon. Mr. FULLERTON: You are quite mistaken about that.

Mr. PRICE: That is according to the record I have here.

Hon. Mr. MANION: In view of the discussion on pensions, I think it would be well to put on the record, for the information of the committee, what it is costing the Canadian National Railways for pensions at the present time. According to the figures handed me, the total expenses of the C.N.R. for pensions last year was \$3,080,011.86. The C.N.R. paid out in pensions last year, over \$3,000,000. I think it is a good thing to have that on the record.

Mr. PRICE: Have we the amount of what is paid out in what might be termed the regular payments; that is, paid out in gratuities?

Hon. Mr. MANION: That is included in this figure.

Mr. HANBURY: Have you the number for the year?

Hon. Mr. MANION: Yes; the number receiving pensions from the C.N.R. is 3,250; the number receiving pensions from the I.C.R. and the P.E.I. fund is 1,661, a total of 4,911, and the total payments amounted to \$3,080,011.86.

Mr. HANBURY: To those should be added the 682 who are pensionable, but are not receiving their pensions.

Hon. Mr. MANION: They are receiving their salary.

Mr. HANBURY: Yes.

Hon. Mr. EULER: If this discussion is finished, I should like to bring up a matter which I think is of some importance. The Chairman of the board said a moment ago that he regards it his duty to save as much money as possible for the railway. With that I am in full accord; but I am also sure that it is not the feeling of the chairman in trying to exercise economies that either a moral or legal injustice be done to anyone. I should like to discuss for a moment a matter which I have discussed in the house on a number of cases, and that is in regard to the debenture holders of what was known as the Toronto and Suburban Railway, and which I think later became known as Canadian National Electric Railways.

Hon. Mr. MANION: Guelph Suburban.

Hon. Mr. EULER: A line that runs from Guelph to Toronto, and which now abandoned. Under the old Mackenzie and Mann regime, \$3,000,000 was obtained from stock debenture holders. The line was later abandoned, and now the proposal is made that the bondholders be paid off at 25 cents on the dollar. I think there is an amount in the estimates—to pay off the bondholders on that basis. I have always contended this, that the people who subscribed for

and bought those bonds, paid to the railways 100 cents on the dollar. They loaned to those railways, \$2,000,000 or more. That was an honest debt incurred by the Toronto and Suburban Railway. That railway became the property of the Canadian National Railways, and my contention is that the Canadian National or the Canadian people, if you like, are now in exactly the same position so far as liability is concerned, as were the original Mackenzie and Mann owners of the road. I may say, by the way, that some years ago the city of Toronto passed a by-law providing for the purchase of the Toronto and Suburban railway. It was not carried out. If it had been accepted by the railways, these bondholders would have received 100 cents on the dollar. The contention is now made—I think it was made by the government—and I want to say I am not talking politics in this; just ordinary plain justice. The contention made that since the security has practically disappeared, because the line has been abandoned,—it is just a streak of rust now between Toronto and Guelph, and I see it every time as I pass along—that the liability has practically disappeared. I think the government or the railways have taken the attitude if the bondholders are not satisfied with that, they can take the road. Of course, that is absurd. There is practically no value from a salvage point of view in the road at all.

Hon. Mr. MANION: Will you permit me to clear up one point? Any statements made, so far as the government is concerned, are statements really of the management, because the Canadian National Railways have handled it entirely; it is not a government proposition.

Hon. Mr. EULER: I will put it right up to the management. My contention is, even if the security has disappeared, the obligation has not disappeared. If I get a man to loan me \$10,000 on a property, for which a mortgage is given, and if the value of the property sinks to \$5,000, it does not relieve me from my obligation of \$10,000. The debt was honestly incurred, and should be honestly paid. It seems to me that the railway board or the government or the people of Canada can ill afford to take advantage of the people who honestly put their money into the road, a hundred cents on the dollar, and then ask them to accept 25 cents on the dollar.

I am told that about half of those bonds were owned in England, and the other half in Canada, and that the English bondholders for years have been trying to get full payment of the bonds, but they finally agreed to accept 25 cents on the dollar. The Canadian bondholders are not satisfied with that. I have a great deal of sympathy with them, perhaps more because of the fact that in my own district, a great many people are holders of those bonds. I want to protest at the Canadian government or the Canadian National Railways taking advantage of the law—and I have my doubts about the legal end of the suit; I think Judge Fullerton is a much better judge of that than I am—and taking advantage of people who honestly put their money into it and accepted those bonds and now under necessity, being obliged to accept 25 cents on the dollar from the Canadian people. I say the Canadian people and the Canadian National Railways ought to recognize the full amount of the liabilities to those who advanced their money to them by way of loan, and for which they hold debentures.

Mr. GEARY: Grand Trunk Pacific stock too?

Hon. Mr. EULER: I am not speaking of stock.

Hon. Mr. MANION: Debenture stock.

Hon. Mr. EULER: Holders of stock have to take their chance, while bondholders are creditors. They loaned their money to the company. The man who buys stock is an owner of the company and has to take his loss when the assets disappear, but a man who advances his money on a bond is a creditor.

Hon. Mr. MANION: This was $4\frac{1}{2}$ per cent debenture stock.

Hon. Mr. EULER: A debenture is, in effect, a bond.

Hon. Mr. MANION: They call it a stock.

Hon. Mr. EULER: After the road was abandoned, the Canadian National Railways continued for some time to pay the interest on the debenture stock. The mere fact they were paying interest shows it was a loan, not a stock. Stock gets its revenue by way of dividends which are supposed to be made out of profit. That is the point I wanted to make. Then, I should like to quote from one of the Toronto papers which says that the Canadian bondholders of this line have issued a writ in the Supreme Court of Ontario against the Canadian National Railways, Canadian Northern Railways, and the British Empire Trust Company, and so on, with regard to this offer of 25 cents on the dollar. Further down it says:—

Last July 25, Canadian debenture holders received a notice calling a meeting in London, England, for July 27th, to consider accepting 25 cents on the dollar in full of claim. Canadian shareholders, it is said, were later told that the offer would have to be accepted or they would receive nothing, and it is claimed many debenture holders interested in the present action sent their proxies under misapprehension.

In the proposed settlement, the English committee are being paid \$18,000 for services but no Canadian debenture holder was a member, nor did any information come from them that any settlement was being discussed, the lawyers assert.

- The Canadian debenture holders are asking that the whole matter be reopened and representations are being made to Ottawa that no action be taken until further information is available.

These are the two things I wanted to mention. First, I think it is utterly wrong, and immoral—I was almost going to say immoral—for the Canadian government to try, under the guise of it not being a legal liability, to escape—

Hon. Mr. MANION: Would you mind leaving the government out of it? It is the Canadian National. The government did not guarantee the bondholders in any way, shape or form.

Hon. Mr. EULER: They are Canadian government owned railways. I would say to you, sir, that the Canadian government has some responsibility to those bondholders despite the fact the railways are supposed to be entirely under the control of a commission.

Hon. Mr. MANION: May I explain my point? The Canadian government never in any way, shape or form guaranteed those bonds. The Canadian government never got into the deal that was made. The only way we have ever mentioned it is by way of explanation and answers to questions that arose from some members on the other side of the house or our side who asked us about it. We were not in the deal at all; it was a business deal with the Canadian National railways and the debenture stockholders in England, who represented, I understand, a majority of the stockholders, over 75 per cent. The only point I am making is this: I do not think the impression should go out that the Canadian government have refused to pay anyone in England, because the Canadian government did not get into the picture directly.

Hon. Mr. EULER: I will place the responsibility on Canada. I these bondholders in England, and I believe they are 75 per cent of the bondholders, which is the number necessary to carry the deal through, accepted 25 cents on the dollar, I think they did it under pressure; they feared they would lose every cent, and they would sooner take 25 cents than get nothing at all. The railway is not operating at all; it is absolutely worthless and valueless. It

does not seem to be in harmony with the principle of fair dealing, to give these people 25 cents, where they had honestly loaned 100 cents on the dollar to the Canadian National Railways; because I say the Canadian National Railways are into this; they are in the same position as Mackenzie and Mann were originally; and I want to protest against this. It is a human principle, that when you borrow money you have to pay back the full amount that you borrowed, whether security, interest, or business interests. That is the one point. The second point is this: I should like to know if this statement is true, that the executive of the bondholders living in Great Britain got \$18,000 out of the Canadian National funds. If they did, then there might be a real compelling reason for them to accept this settlement of 25 cents on the dollar. They themselves might get an amount equal to 100 cents on the dollar, far more than the bondholders would get there. I should like to know if that is true. Did they receive that money, and did it come out of the Canadian National account. I should like to have some light on that matter.

Hon. Mr. FULLERTON: Well, so far as the trustees are concerned, that is one thing they cannot be blamed for, because this matter was dealt with, considered and decided, before we took office. I know about it in a general way, although I have not given it very much attention, because I thought it was a matter that was concluded. I understand that this money was advanced to the Toronto Suburban many years ago, long before the Canadian National was formed. Later on, I understand, the Canadian National did pay interest on the bonds for a number of years, but they stopped paying that interest later. I understand that an action was brought in England by a bondholder named Bernard, or some such name as that, and later on a meeting of the bondholders was held, and some agreement was made whereby they would pay—the bondholders themselves—the expenses of the litigation themselves. I may not be stating the facts accurately, but that is my impression of the arrangement.

Hon. Mr. EULER: The bondholders paid the expenses?

Hon. Mr. FULLERTON: Yes, that \$18,000 is a matter between the bondholders in England.

Hon. Mr. EULER: It certainly should be.

Hon. Mr. FULLERTON: That is the way I understand it is; but so far as the policy of settling those bonds in full or paying 25 per cent is concerned, that is a question that has never been considered by the present trustees, because I assumed the matter was settled and disposed of before we came in. It is perfectly true that there was an item put in our estimate for an amount, but that is more or less formal to cover the settlement that had been made. I have not gone into the matter very closely; I cannot give a detailed statement of the facts, but that is my understanding of it in a general way.

Hon. Mr. MANION: Mr. Labelle was one of the old directors, as was Colonel Smart, and I should like Mr. Labelle to make a statement on behalf of the Canadian National.

Mr. LABELLE: I regret I have not the file of the legal department with me. My memory is that an amount such as Mr. Euler mentioned was submitted to the bondholders at the time, and that amount was agreed on as the amount to be paid to some others for legal fees and expenses to put the transaction through.

Hon. Mr. EULER: I want to get it clear whether the \$18,000 mentioned here, came out of the funds of the railway company or the bondholders themselves.

Mr. LABELLE: If I remember correctly, it was taken out of the 25 per cent, but I am not sure just now, I would rather have the file here to give the explanation. I know that we want to put it through ourselves that the bondholders knew

of the payments, and it was embodied in the document prepared and submitted to us.

Hon. Mr. EULER: Mr. Chairman, of course that does not touch the vital point as to the responsibilities of the railway to pay these bonds, merely because the railway is in a position, perhaps legally, and I am saying "only perhaps"—perhaps legally they do not have to pay those bonds in full, yet they continued to pay interest on them. I say that in ordinary human decency and moral obligations, that it is beneath the dignity of the Canadian National Railways, who, after all are representing the Canadian Government to give to these people any less than the amount advanced to the railways. That is my point.

The CHAIRMAN: Following Mr. Euler's argument, I had a letter a short time ago from a man who told me he was a bondholder of the Inverness railroad, which is a railway that is now being operated, I understand, by the Canadian National. How he came into possession of it, I do not know; but I do know this, that this man and others, bondholders, who loaned money in the same way to the Inverness Railway, when it was part of the Mackenzie and Mann railway, and is now a part of the Canadian National railways. But they are not being offered even 25 per cent on their bonds.

Hon. Mr. EULER: Do you think that is right?

The CHAIRMAN: No; but at the same time, that railway was taken over by the Canadian National, the Gaspé railway was taken over, and my friend Mr. Euler had knowledge of that. Those bondholders were paid 50 cents on the dollar, but the Inverness railway bondholders were paid nothing at all. I do not know how they managed to do the flim-flam, but somebody did it and that is what happened.

Hon. Mr. EULER: I was not going to use so strong a term in this case.

The CHAIRMAN: It may be wrong for me to use that term, but the fact is this, that that road is now being operated, as I understand, by the railway company. It is not like your road, the line of rust, it is being operated, because it reaches a coal mine. That is my information. The railroad has that line without being liable for the bonds; the bondholders are nowhere.

Mr. POWER: Are you sure we did not pay any money for the Inverness road?

The CHAIRMAN: I am quite sure. There was nothing paid to the bondholders at all. The matter was in the hands of the bondholders, and there may have been some legal fees in connection with investigations into the matter. I am not sure of that, because I do not know what the history is.

Hon. Mr. EULER: If the bondholders had arranged this voluntarily I would not say anything. I don't doubt that they understood they could not get any more and they decided that they would sooner take half a loaf than no bread, although in this case it is only a quarter of a loaf, 25 cents on a dollar; and for that reason it does not look to me like a square deal.

Hon. Mr. MANION: May I just say a word? From memory I repeat that the government had nothing whatever to do with it. I remember very very distinctly the late management putting the subject before me, and telling me the situation. They pointed out that the Guelph Suburban railway had not been earning its interest for some years. It is true, as Mr. Euler says, that the Canadian National continued to pay the interest; but the Canadian National had got into a financial position where they felt they could not continue to pay the interest. As a matter of fact, the \$100,000 a year was really not earned; they claimed they were not earning any part of it. In fact, they were losing on operations.

Hon. Mr. EULER: That does not touch the point.

Hon. Mr. MANION: They were losing on operations, and they discontinued paying the interest. Incidentally, it was the late management that discontinued

paying the interest. The people then complained to us. It was brought up in the House at one time by Mr. Euler, and I believe, on one occasion, by the late Mr. Cayley and one or two others.

Mr. STEWART: Also Mr. Porteous.

Hon. Mr. MANION: Yes, that is right. Then the majority of those bondholders—they are not really bondholders, debenture stock $4\frac{1}{2}$ per cent, if you like; they had a mortgage on this road—the railway offered to let them take over the road; but as it had no operating value they did not wish to do it. The Canadian National officials and a sufficient majority of those shareholders in England to make it legal, got together and an agreement was arrived at for accepting 25 cents on the dollar. That is the whole picture. The moral obligation, of course, is an argumentative thing. I am as concerned with the widows and orphans in our own country as I am with others, and I think they should be given a good deal of consideration. The government cannot be blamed for those debenture stocks, as they were not a guarantor, neither was the Canadian National Railways, according to my information.

Hon. Mr. EULER: They paid the interest.

Hon. Mr. MANION: They took it over from Mackenzie and Mann. I think it is a very argumentative point with all due respect, if in any shape, manner or form the Canadian government or the Canadian National Railways, for that matter, or the Canadian people, are in any way morally bound to pay more than what the satisfactory arrangement calls for. This amount was satisfactorily arrived at by arrangement with the debenture stock holders in England, and the management of the railway. I only say that because I do not think the definite statement should go out that in some way the people of Canada are morally obligated in this matter. I have looked into it very thoroughly, and I do not think they are morally obligated. If so they are morally obligated in a lot of other matters such as Mr. Geary mentioned a while ago. Some of the old Grand Trunk stockholders over in England think we are morally obligated to pay them.

Hon. Mr. EULER: There is a difference between stock and bonds.

Mr. GEARY: Most bonds have as security, the property.

Hon. Mr. EULER: That is only security. If the security disappears, the obligation does not disappear; that is my contention. And the fact the railways did not pay them, I do not think enters into the situation at all. If I am able to borrow \$25,000 from anybody, to go into business, and that business fails, and the money disappears, that does not discharge my obligation unless I go into bankruptcy.

Mr. POWER: May I ask you, Mr. Chairman, if the supplementary estimates passed in the House some days ago, in regard to the Moncton and Buctouche Railway, was the payment of some obligations in that connection?

Hon. Mr. MANION: No, not at all.

Mr. POWER: Before that?

Hon. Mr. MANION: In 1918. I was quite ready to explain that in the House, but nobody asked a question about it. As a matter of fact, everybody was so anxious to get the estimates through, nobody bothered about it.

Mr. HANBURY: Everybody is anxious to get through except the government.

Hon. Mr. MANION: I do not think you can say we are not anxious to get through. I am speaking from memory, but I think the Moncton and Buctouche Railway was bought in 1918 by the Canadian government for a fixed sum of money, plus 5 per cent interest, until the payment was made. Unfortunately the Moncton and Buctouche Railway could not give a clear title for the property until within the last few months, and according to the agreement, and supported

by the Justice Department, which I had with me in the House, the other day, until the physical payment was made, the government was responsible for the 5 per cent interest under that agreement of 1918. That only happened because they were not able to give a clear discharge to the property. That is the whole story.

Mr. POWER: I have some recollection to the effect that they were bonds of that railway, and the bondholders did not receive any money. Ten years ago, someone came to my office with these bonds of the Moncton and Buctouche Railway and said he had never been paid anything on them.

Hon. Mr. MANION: That is true. They were not paid anything on the agreement at all until they were taken over and having consented to that plan, the Moncton and Buctouche people could not give a clear title, and until they could, no payment could be made.

Hon. Mr. EULER: I should like to ask the management of the C.N.R. if they would not give consideration to this. After all, they are completing the deal, and I should like to ask them if they would not reconsider the whole situation both from the point of view of the legal situation and the moral responsibility to those people who have been offered 25 cents on the dollar.

Mr. LABELLE: As far as the legal situation is concerned, I understand the legal department of the railways and the trustees approached the committee representing the bondholders, and a settlement was made on the basis that has been indicated here. At that time, the bonds were selling to the public at around \$50 to \$60.

Hon. Mr. MANION: They were down to \$36 even when they were paying interest.

Hon. Mr. EULER: This is not a sort of compassionate allowance not justified by conditions?

Mr. LABELLE: No.

Mr. GEARY: Having regard to the assets, I am not adverse to a compassionate allowance being paid to these people or any others. I have no doubt there be many in my constituency also who are affected, but I do not happen to know that.

Hon. Mr. MANION: I have had letters from your constituents.

Mr. GEARY: It is a question of whether we should do it, and what precedent we are establishing. All of us are quite ready to make a compassionate allowance to anybody to whom we can justly do it.

Hon. Mr. EULER: I would object to calling it a compassionate allowance.

Mr. GEARY: It is either that or a legal claim.

Mr. HANBURY: Mr. Chairman, as it is getting close to one o'clock, and in view of the fact that this committee may be making a report very soon, possibly to-day, I wish to give notice to the committee of some recommendations that I wish it to consider. In forming its report, I should like the committee to incorporate the following motions:

This committee recommends:—

(1) Against unification of the Canadian Pacific Railway and the Canadian National Railways, as the interests of the Canadian people will be served best by competition.

(2) Notwithstanding any recommendation to the contrary that may be contained in the report of the Duff Commission, that it is in the public interest to have the accounts and estimates of the C.N.R. and the C.G.M.M. submitted to a committee of the House for revision annually.

(3) That until the government is relieved of all liability under the guarantee given, the accounts and estimates of the Canadian Pacific

Railway and their subsidiary companies be submitted to a committee of the House for revision annually.

Mr. PRICE: Before we adjourn, I believe Mr. Fullerton had a statement made concerning the repairs to the car ferry at Charlottetown. I would like to have the figures in connection with that—the first tenders and the second tenders that were submitted.

Hon. Mr. FULLERTON: It has not been the practice in the past to give out the figures—to give out the amount of different tenders. I am in the hands of the committee; if the committee insist on it I must do as the committee says. I can see no object or useful purpose to be served in giving the figures.

The CHAIRMAN: Does that apply to present tenders?

Hon. Mr. FULLERTON: Yes, present tenders.

The CHAIRMAN: I would suggest that any request for such information would be strictly out of order, because I for one take the ground that we have no right to get any information respecting the railway company concerning the present year's business. There has always been the rule, and I would consider such a request strictly out of order.

Mr. PRICE: All I can say is that information of this nature has been given before and no harm has been done. It has not been advertised through the press. I simply asked for the figures—the tenders that were first submitted in connection with the repairs to the car ferry at Charlottetown and the second tenders that were submitted.

Hon. Mr. MANION: I presume that is for the management to consider, and at the next meeting they can give us an answer. I do not say they will give the figures, but the answer.

Hon. Mr. EULER: I do not know whether the chairman will think his ruling covers my request, but I would like to have a statement at the next meeting whether the \$18,000, or whatever the sum may have been that was paid to the executive of the English bondholders in connection with the Toronto Suburban—whether any of that and how much came out of the fund to the Canadian National Railways.

The CHAIRMAN: That question, as far as I am concerned, would be perfectly in order.

Mr. LABELLE: There is nothing paid yet, because in the agreement they said that it must be approved by the legal representative of the Canadian National Railways, and that 75 per cent of the bondholders must approve.

Hon. Mr. EULER: And whether the arrangement that is contemplated—and I suppose the details are settled—whether anything has been paid or whether it is contemplated paying any money out of the Canadian National treasury?

Hon. Mr. MANION: In addition to the 25 cents.

Hon. Mr. FULLERTON: Yes, we will give you that information.

The CHAIRMAN: I would consider that to be perfectly in order. I cannot agree with Mr. Price. If the management wish to give him such information as he asks for I think it would probably be in the interest of the road, but I am not going to consider a question of that kind as being in our rights now.

The committee adjourned to meet at 4 o'clock p.m.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Gentlemen, we will proceed.

Mr. HANBURY: I would like to secure from the chairman the information whether you have any record of the amount of overtime paid to employees?

Hon. Mr. FULLERTON: We have it, but of course, it is all over the system.

Mr. HANBURY: Can you give any estimate of what percentage of the total it would amount to?

Mr. HUNGERFORD: With employees who work by the hour it would be small; train service employees naturally run into overtime according to the length of their run.

Mr. HANBURY: Generally speaking, the policy of the company is not to encourage overtime?

Mr. HUNGERFORD: Quite.

Sir EUGENE Fiset: I asked at the last meeting if I could possibly get a report on the expense of the train between Campbellton and Matapedia.

Hon. Mr. FULLERTON: Yes, I have it here.

Question by Sir Eugene Fiset: I would like to know exactly the operating expenses between Matapedia and Campbellton since the terminal has been abandoned. I would like to know the expenses per year since 1930, and also what it is costing the railway at the present time to transfer the mail from those two points?

Answer to train terminal operation: The operating expenses in question between Matapedia and Campbellton form part of the operating expenses between Campbellton and New Carlisle. It is therefore impossible to state precisely what they amount to. A mileage pro-rate of these train operating expenses between Matapedia and Campbellton amounted to \$6,600 for 1932 and \$6,300 for 1933. The closing of Matapedia as a terminal, however, led to substantial economies in terminal expenses so that notwithstanding the additional twelve miles run by each train, there is a net economy of at least \$14,000 per year.

Answer as to transfer of mail: The transfer of mail at Campbellton to and from points on the Gaspé lines is incidental to other station work and no increase in staff was occasioned. The changed method of operation has resulted in a saving in mail transfer at Matapedia of \$720 per year.

Mr. HANBURY: In previous years there has been some discussion about the ownership of the Rail and River Coal Company in Ohio. I was wondering whether the Canadian National still owned it and are operating it or whether they are trying to dispose of it.

Hon. Mr. FULLERTON: No, we are not disposing of it; we are still operating it.

Mr. HANBURY: Are there negotiations for the disposal of it?

Hon. Mr. FULLERTON: It is the policy of the company to continue the operation.

Mr. HANBURY: There is another question, and that is in connection with the basis for carrying the mails between the C.P.R. and C.N.R. Could you give me any information in that respect?

Hon. Mr. FULLERTON: There are standard rates agreed upon between the railways and the Post Office Department, and the Post Office Department awards contracts.

Mr. HANBURY: What is the basis for apportioning the carrying of the mail?

Hon. Mr. FULLERTON: That is entirely in the hands of the Post Office department.

Mr. POWER: Probably the minister could tell us?

Hon. Mr. MANION: That has been asked in the House. The railway here would not have that. We can get that from the government. I do not see any objection to giving it.

Mr. POWER: Is there not a policy involved?

Hon. Mr. MANION: I have never seen it on record before. I do not think so.

Mr. POWER: Have they always tried to distribute it fairly as between the two companies?

Hon. Mr. MANION: This statement is subject to correction, but I remember the question being discussed some years ago when you and I were here, and it was shown at that time, it seems to me, that the C.P.R. did get a little more than the C.N.R., and the answer was that the C.P.R. having more through trains and having much the older service, throughout certain sections the C.P.R. could get it where the C.N.R. could not. That is what I remember in a rough way. But as far as the Canadian National people are concerned, they would know their own, but they would not know the C.P.R. figures. There has been a question on the order paper asking for the information; I do not know whether the information has been given.

Now, we have been waiting for Mr. Euler before dealing with the Toronto Suburban Railway, but I am informed he is not coming in. I would like the officers to deal with that matter. There is some information they have in reply to some of the statements made this morning which should be made public.

Hon. Mr. FULLERTON: I have in my hand the circular that was sent out by the British Empire Trust Company Limited to the bondholders bearing date 15th July, 1933. It reads as follows:—

THE BRITISH EMPIRE TRUST COMPANY LIMITED

REGISTERED OFFICES:—

STAFFORD HOUSE,

14-20 King William Street,

LONDON, E.C. 4, 15th July, 1933.

To the Holders of

Canadian National Electric Railways

(Successor by amalgamation to Toronto Suburban Railway Company,
4½ per cent First Mortgage Debenture Stock).

DEAR SIR (or MADAM),—

Since the default by the above railway company in the payment of your debenture interest on 15th July, 1931, we, as your trustees, have made unremitting efforts through our Canadian directors and by personal and written representations to the Canadian National Railways, the Prime Minister of Canada, and the Minister of Railways for some further and favourable consideration which would mitigate the loss resulting from the present position.

As the result of our representations, we as trustees, have now received the letter from the Canadian National Railways dated 4th May, 1933, a copy of which appears at the end of this circular. It will be noted that the letter suggests settlement by a cash payment in sterling by the Canadian National Railways of 25 per cent of the nominal amount of the debenture stock outstanding, i.e., £25 cash in full and final settlement of all claims in respect of each £100 of debenture stock. The letter also covers provision for the meeting of various

costs and expenses referred to below. It will also be noted that the suggested settlement is subject to parliamentary approval, and is made without prejudice to, and without admission of any liability by, Canadian National Railways.

We are now in a position to set before you the alternatives which appear to be open to you:—

1. To endeavour by legal process to establish a claim against the Canadian National Railway Company and or the Canadian Northern Railway Company. The trustees cannot recommend this course. Legal proceedings would be very expensive and would probably be of a protracted character, and their success cannot be predicted with certainty. The trustees would be most unwilling to embark on such proceedings, and would certainly not do so unless they were first fully indemnified by the stockholders against all expenses that might be incurred.

2. To instruct the Receiver to take steps to foreclose the security for your debenture stock and to realize the same to the best advantage. After considering this alternative fully with our directors in Canada and with the Receiver, we cannot, having regard to the suggested settlement made by the Canadian National Railways, recommend its adoption. From the year 1922 onwards the company showed substantial losses on operation before providing interest on your debenture stock. It is certain that the property cannot possibly be successfully operated as a railway company and will have to be dismantled and sold. The assets upon which your debenture stock is secured are briefly as follows:—

(i)	Right-of-way, rails, stations, rolling-stock, electrical transmission lines, substations and equipment, car barns, amusement park, etc. The committee appointed by us in Canada consider that the dismantlement and sale of these properties is unlikely, even under normal conditions which do not exist to-day, to realize as much as.. . . .	\$115,000
	and if realization were long deferred, as would probably be the case, heavy expenses would be incurred for insurance, taxes, etc., which would considerably reduce the amount realized.	
(ii)	Cash in hands of trustees with interest accrued to 31st May, 1933, approximately.. . . .	56,000
(iii)	Dominion of Canada and Dominion government guaranteed securities in the hands of the trustees estimated to have a present market value of approximately.. . . .	142,000
		<hr/> \$313,000
	=at \$4.90 to the £1 Sterling, say.. . . .	<hr/> £63,877

a sum which, even if realized, would amount only to 11·83 per cent, i.e., £11 16s. 7d. per £100 of your debenture stock, which could only be collected over a long period of time and would certainly be subject to deduction of heavy expenses:

3. To authorize the trustees to make a settlement with the Canadian National Railways upon terms which would enable the trustees to distribute to you a cash payment of 25 per cent of the £540,000 of outstanding 4½ per cent first mortgage debenture stock i.e., a sum of £135,000 clear of all expenses, and as part of such settlement to surrender to Canadian National Railways the whole of the then remaining property and assets upon which your debenture stock is secured. Such settlement would compare favourably with the estimated realization figure of £63,877 referred to in paragraph 2 above.

It will be noted that the suggestion of the Canadian National Railways covers the payment by them of certain expenses and disbursements aggregating

not more than \$35,000. The expenses and disbursements referred to are, up to the present time, estimated as follows:—

Expenses of receiver, committee in Canada, legal and trustees, approximately	\$ 13,420
Receiver's advances	4,500
Plus interest to, say, 30th June, 1933	116
Taxes, etc., approximately	16,500
	<hr/>
	\$ 34,536

We, as trustees, and our directors in Canada, who are fully acquainted with the position strongly recommend the making of a settlement on the basis indicated in this paragraph and as set out in resolution No. 1 in the enclosed notice of meeting. We and our advisers regard such a settlement as the most favourable likely to be obtained. The reasons for making this recommendation may be summarized as follows:—

- (a) The salvage value of the assets, including cash and securities, would not, if a sale were made now, yield the figure of \$313,000, or, say, £63,877 referred to in paragraph 2 above.
- (b) The realization of the salvage, if undertaken by the Receiver, would occupy an indefinite period as there is no present market for the physical assets. The trustees assume that the railway company could realize the assets to better advantage as being themselves users of some of the materials to be salvaged.
- (c) The suggested settlement by the Canadian National Railways can be dealt with fairly promptly and thus put an end to continuing expense.
- (d) The receiver and also the London committee referred to in our circular of 2nd December, 1932, recommend your approval of the suggested settlement. The London committee have handed to us a letter addressed to you on the subject, a copy of which we enclose.

Under the circumstances, we, as trustees, have decided to convene a meeting of debenture stockholders, as per formal notice enclosed herewith, to be held on Thursday, the 27th July, 1933, to consider and if thought fit, pass a resolution authorizing the trustees to conclude arrangements with the Canadian National Railways or their nominees which will secure £25 in cash for each £100 nominal of the stock free from all expenses. The trustees and the committee consider that a settlement in cash would be preferable to accepting new securities as the value of the latter would vary, depending on market conditions.

You will observe that the London Committee, in their letter of 15th July, 1933, have recommended that out of the cash available if such settlement be made .682 of 1 per cent of the nominal amount of debenture stock outstanding, i.e., £3,682 should be deducted for the purpose of paying the legal expenses of Mr. Alfred Barnard £1,132, for honorarium to Mr. Barnard £2,000, and for professional services, remuneration, and or expenses of the London Committee £550.

We, as trustees, consider that the recommendations of the London Committee in this matter are fair and reasonable having regard to the labour and expenses incurred by Mr. Alfred Barnard and the Committee, and we have, therefore, in the notice convening the meeting incorporated a second resolution asking for your consent to the recommendations of the Stockholders' Committee in this matter.

A form of proxy is also enclosed, which proxy, if sent in, will be used at the meeting, or at the adjourned meeting, to vote in favour of the resolutions contained in the enclosed notice of meeting.

Under the terms of the Trust Deed securing your debenture stock it is provided that the quorum required at a general meeting of stockholders to pass an

extraordinary resolution shall be a clear majority in value of the holders of stock outstanding. Owing to a large proportion of debenture stockholders being resident in Canada, it would not appear to be possible to obtain the necessary quorum at the meeting called for the 27th July. Under such circumstances the meeting called for 27th July would, under the terms of the Trust deed, have to be adjourned for 21 days, viz., until 17th August, in order that those debenture stockholders present in person or by proxy at the adjourned meeting to be held on 17th August may be able to deal with the resolutions.

It is of the utmost importance that those debenture stockholders who are unable to be present at the meeting in person should send in their proxies.

If resident in Great Britain, to:

The British Empire Trust Company Ltd.,
Stafford House, 14-20 King William Street,
London, E.C.4.

If resident in Canada to Messrs. A. J. Mitchell and Co., Ltd.,
25 King Street West, Toronto 2.

Yours faithfully,

For and on behalf of

THE BRITISH EMPIRE TRUST COMPANY LIMITED,
H. M. COX, *Secretary*.

In this circular is the letter written by Mr. Hungerford dated 4th May, 1933, which sets forth the offer that was made, addressed to the British Empire Trust Company:—

DEAR SIRs,—This will confirm that on the 24th April, I approved of there being sent by Mr. A. J. Mitchell to your Mr. John Davidson, cable as follows:—

Without prejudice and subject to parliamentary approval, the Canadian National Railways suggest full settlement of claims of debenture holders Toronto Suburban Railway on basis payment by National Railways of twenty-five per cent cash in sterling: all physical assets of Suburban Railway, including cash and securities in hands of trustees, to be turned over to the National. If you consider stockholders would prefer new securities in lieu of cash on substantially same ultimate financial basis management would consider such proposal.

Since then I have written Mr. Mitchell that if arrangements as referred to in such cable are made I would recommend payment of certain expenses and disbursements of the trustee and the receiver aggregating not more than \$35,000.

It must be understood that the above approval was given without prejudice to, and without admission of any liability by the Canadian National Railways, but subject to approval by parliament of any arrangement on the lines referred to in the cable.

That refers to the receiver appointed in Canada. After the bonds were defaulted a receiver was appointed and took possession of the property, and that refers to his expenses. This circular which was sent out bearing date 15th July, 1933, recommended the acceptance of the proposition and an extraordinary resolution of the bondholders was passed on the 17th August, in which settlement was approved. The resolution reads:—

Extraordinary resolutions passed at an adjourned meeting held on August 17th, 1933, of the holders of the Canadian National Electric Railway 4½ per cent first mortgage debenture stock issued by said company's predecessor, the Toronto Suburban Railway Company under Trust Mortgage dated 15th July, 1911.

1. That the British Empire Trust Company Limited be and they are hereby authorized to conclude arrangements with the Canadian National Railways for their nominees which will secure a distribution of £25 in cash for each £100 nominal of 4½ per cent first mortgage debenture stock of Canadian National Electric Railways now outstanding free from all costs, charges and expenses of every kind and that if and when such arrangements are successfully concluded the trustees be and they are hereby authorized to discharge the said Trust Deed securing the said 4½ per cent first mortgage debenture stock and to release to the Canadian National Railways or their order the whole of the then remaining property and assets comprised in such trust deed and to take all further steps that may seem to the trustees necessary or desirable to the intent that the said £25 of cash for each £100 nominal of the said 4½ per cent first mortgage debenture stock now outstanding be received by the trustees on behalf of the Debenture stockholders clear of all costs, charges and expenses as aforesaid in full and final satisfaction of the principal and interest in respect of the said 4½ per cent first mortgage debenture stock and of all claims by the stockholders of whatever nature in respect thereof, and that the trustees be and they hereby are authorized subject as aforesaid, to execute and do all deeds, documents and things whatsoever which in the opinion of the trustees are reasonably required for giving effect to this resolution.

2. That subject to the arrangements mentioned in resolution No. 1 above being satisfactorily concluded, the trustees be and they are hereby authorized out of the £25 for each £100 nominal of the said 4½ per cent first mortgage debenture stock which will then be available for distribution as mentioned in resolution No. 1 above, to set aside and retain .682 of one per cent on the nominal amount of the debenture stock outstanding i.e., £3,682 and to pay there out to Mr. Alfred Barnard for legal expenses the sum of £1,132, to Mr. Alfred Barnard for honorarium the further sum of £2,000 and to the stockholders' committee for professional services, remuneration and/or expenses, the sum of £550 and that the trustees be and they are hereby authorized subject as aforesaid to execute and do all deeds, documents and things whatsoever which in the opinion of the trustees are reasonably required for giving effect to this resolution.

Hon. Mr. MANION: Would you explain the question of the fees?

Hon. Mr. FULLERTON: Yes.

Hon. Mr. MANION: The second clause in this resolution covers that.

Mr. POWER: That is, approximately £5,500 and some odd were paid for legal fees?

Hon. Mr. FULLERTON: £3,682.

Mr. POWER: Plus £2,000 honorarium.

Hon. Mr. FULLERTON: That is included.

Mr. POWER: And how about the £500 to the shareholders' committee?

Hon. Mr. FULLERTON: Well, the amount is fixed, .682 of 1 per cent.

Hon. Mr. MANION: It works out at about \$18,000.

Hon. Mr. FULLERTON: On the nominal amount of the debenture stock, .682 equals £3,682, and that is distributed.

Hon. Mr. MANION: It comes out of the money paid for the stock?

Hon. Mr. FULLERTON: Quite so.

Mr. POWER: But the Canadian National Railways paid the receiver's fees amounting to approximately \$35,000?

Hon. Mr. FULLERTON: That is correct. That is part of the agreement.

Mr. POWER: What was the total amount involved; what was the amount of the debentures outstanding at that time.

Hon. Mr. MANION: About \$2,000,000.

Mr. SMART: £540,000.

Hon. Mr. MANION: There was an estimate of \$500,000 roughly to cover that.

Mr. POWER: And 25 per cent of that would be paid.

Hon. Mr. MANION: I would like to have this all put on the record. There is one point I would like to make clear that I did not think of this morning, because we do not want this question misunderstood, and that is that the Canadian stockholders or bondholders, whatever you wish to call them, were not the original debenture holders. The original debentures were sold in England by Mackenzie and Mann, I think. The Canadian holders at the present time were not the original lenders, but bought them up for anything from \$30 to \$50, so that the people to whom the money would now be paid, so far as Canadians were concerned, were not the original lenders. Therefore, the strength of any moral obligation is lessened. Well, that is questionable, but I think it is a point to remember. The people from whom Mackenzie and Mann borrowed the money were the English people. They are the people who made the settlement, and I am inclined to think that there is an article in the trust deed giving the control of the matter to the English stockholders.

Mr. POWER: It does not say they shall have to be Englishmen.

Hon. Mr. FULLERTON: 75 per cent.

Hon. Mr. MANION: I think so.

Mr. SMART: It includes in the trust deed, notice in connection with these things only need be done in England and nowhere else.

Hon. Mr. MANION: That is the point.

Mr. POWER: No doubt it was the intention to keep the control in England.

Hon. Mr. MANION: I wanted to put that on record.

Mr. CANTLEY: If that is so and I understand it properly, the present holders are speculators; they bought the shares up in England after they defaulted.

Mr. POWER: I do not think the Minister would say that, would you?

Hon. Mr. MANION: Oh, no—not after they defaulted. My understanding is this—this is not said with any intent of offence to anybody—I was told this at the time that a Canadian broker got hold of a lot of these shares that were selling down around \$35 or \$30. Mr. Hungerford told me a little while ago he understood they had gone as low as \$30.

Mr. HUNGERFORD: I heard that.

Hon. Mr. MANION: I heard the same. A Canadian broker got quite a bunch of them together and brought them here and sold them here; and without, perhaps, meaning to give a wrong impression, the impression, of course, of the people who bought them over here was that the Canadian National, and through the Canadian National the government, was behind them. I do not say he did that intentionally, but that was the impression that the people got. That is what I was told, and that is why they feel even more bitterly than they would otherwise feel. I am only giving these facts because I feel that all the facts relative to this matter should be given in order not to affect our credit in England. That is my purpose. As I said, the government does not come into the picture. Are there any questions about that before we pass on to something else?

Mr. HANBURY: Is there any more business that it is absolutely necessary should come before us?

The CHAIRMAN: We were discussing the consolidated balance sheet of the Canadian National Railways, and there has been discussion on it. I do not know whether there are any more questions to be asked.

Mr. HANBURY: In view of the lateness of the session, and as we are anxious to get home, I think we can well afford to let this committee close its discussions. However, there is one question I handed to the chairman to-day, and if a reply could be given as part of the record I would like to have it.

Hon. Mr. FULLERTON: I will send it to the secretary of the committee.

OTTAWA, June 19, 1934.

The Honourable J. D. CHAPLIN, M.P.,
Chairman, Committee on Railways and Shipping,
Ottawa, Canada.

DEAR SIR,—The operating ratio of the C.N.R. declined steadily from 1923 to 1929.

After 1929 the cost of earning a dollar on the C.N.R. went up rapidly as compared with its main competitor.

The figures I am using for this comparison are the following: (Years 1923 to 1931 inclusive are taken from the Duff Report. 1932 and 1933 from the reports of the railways).

<i>Operating Ratios</i>			
Year	C.N.R.	C.P.R.	Spread
1923..	91·8	81·0	10·8
1924..	92·5	80·5	12·0
1925..	86·7	77·3	9·4
1926..	82·5	75·8	6·7
1927..	84·9	78·5	6·4
1928..	82·0	75·4	6·6
1929..	85·6	77·3	8·3
1930..	91·4	78·4	13·0
1931..	99·8	80·3	19·5
1932..	96·34	80·7	15·64
1933..	96·16	78·29	17·87

In the table given the C.P.R. ratio remained practically the same between 1929 and 1933—the C.N.R. records an increase of nearly 10 points.

(1) Is this change due to a decline in the relative volume of total business handled by the C.N.R.?

(2) Or to relative increase of expenditures?

(3) Your Annual Report, page 12, 1933, gives a summary of expenditures under different accounts—are these accounts comparable in the two roads?

(4) If the answer to No. 2 is in the affirmative, please state in which account the increase took place. (On basis of accounts, page 12.)

(5) I have the following statement of the equipment ratios of the C.N.R. and C.P.R.

*Equipment Ratio**
(Ratio to Gross Revenues)

Year	C.N.R.	C.P.R.
1923..	21·05	17·79
1924..	20·62	18·15
1925..	19·93	18·21
1926..	19·08	18·67
1927..	18·87	19·57
1928..	17·92	18·97
1929..	19·34	18·90
1930..	19·84	16·68
1931..	21·91	14·11
1932..	19·77	14·06

* Canadian Lines only C.N.R. including Eastern Lines.

These figures are fairly comparable from 1924 to 1929 but differ sharply after that date. Why?

(6) A newspaper article lately made this claim: "General expenses on the C.N.R. on a mileage basis are double the C.P.R. Does this difference exist—if so why?

Are the accounts of General Expenses on a comparable basis on the two roads?

Are pensions treated in the same way in this account in both roads?

Is there any difference in accounting methods *re* taxes?

I would appreciate answers to these questions.

Sincerely,

CANADIAN NATIONAL RAILWAYS

INFORMATION REQUESTED BY THE SELECT STANDING COMMITTEE ON RAILWAYS AND SHIPPING, JUNE 20, 1934

QUESTIONS BY MR. HANBURY

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Operating Ratios

<i>Year</i>	<i>C.N.R.</i>	<i>C.P.R.</i>	<i>Spread</i>
1923..	91.8	81.0	10.8
1924..	92.5	80.5	12.0
1925..	86.7	77.3	9.4
1926..	82.5	75.8	6.7
1927..	84.9	78.5	6.4
1928..	82.0	75.4	6.6
1929..	85.6	77.3	8.3
1930..	91.4	78.4	13.0
1931..	99.8	80.3	19.5
1932..	96.34	80.7	15.64
1933..	96.16	78.29	17.87

In the table given the C.P.R. ratio remained practically the same between 1929 and 1933—the C.N.R. records an increase of nearly 10 points.

(1) Is this change due to a decline in the relative volume of total business handled by the C.N.R.?

(2) Or to relative increase of expenditures?

(3) Your Annual Report, page 12, 1933, gives a summary of expenditures under different accounts—are these accounts comparable in the two roads?

(4) If the answer to No. 2 is in the affirmative, please state in which account the increase took place. (On basis of accounts, page 12.)

(5) I have the following statement of the equipment ratios of the C.N.R. and C.P.R.

*Equipment Ratio** (Ratio to Gross Revenues)

<i>Year</i>	<i>C.N.R.</i>	<i>C.P.R.</i>
1923..	21.05	17.79
1924..	20.62	18 15

*Canadian Lines only C.N.R. including Eastern Lines.

Equipment Ratio—Con.*

<i>Year</i>	<i>C.N.R.</i>	<i>C.P.R.</i>
1925..	19·93	18·21
1926..	19·08	18·67
1927..	18·87	19·57
1928..	17·92	18·97
1929..	19·34	18·90
1930..	19·84	16·68
1931..	21·91	14·11
1932..	19·77	14·06

These figures are fairly comparable from 1924 to 1929 but differ sharply after that date. Why?

(6) A newspaper article lately made this claim: "General expenses on the C.N.R. on a mileage basis are double the C.P.R. Does this difference exist—if so, why?"

"Are the accounts of General Expenses on a comparable basis on the two roads?"

"Are pensions treated in the same way in this account in both roads?"

"Is there any difference in accounting methods *re* taxes?"

Question 1: Is this change due to a decline in the relative volume of total business handled by the C.N.R.?

Answer: The relative proportions of total business handled by the all-inclusive Canadian National Railways System as compared with the Canadian Pacific System, including its Canadian rail subsidiaries for the years 1923-1933 inclusive, are as follows:—

<i>Year</i>	<i>C.N.R.</i>	<i>C.P.R.</i>
1923..	56·7	43·3
1924..	56·6	43·4
1925..	57·3	42·7
1926..	57·4	42·6
1927..	57·2	42·8
1928..	56·4	43·6
1929..	57·3	42·7
1930..	57·0	43·0
1931..	57·6	42·4
1932..	56·6	43·4
1933..	56·6	43·4

Question 2: Or to a relative increase in expenditures?

Answer: The relative proportions of railway operating expenses (with certain qualifications) for the Canadian National all inclusive system and for the Canadian Pacific System, including its Canadian rail subsidiaries for the years 1923 to 1933 inclusive, are as follows:—

<i>Year</i>	<i>C.N.R.</i>	<i>C.P.R.</i>
1923..	59·8	40·2
1924..	60·2	39·8
1925..	60·1	39·9
1926..	59·4	40·6
1927..	59·0	41·0
1928..	58·4	41·6
1929..	59·6	40·4
1930..	60·9	39·1
1931..	62·8	37·2
1932..	60·9	39·1
1933..	61·5	33·5

Qualifications: As compared with the Canadian National expenses, the Canadian Pacific expenses do not include express department expenditures, commercial telegraph expenditures, colonization and agriculture expenses and pensions.

Question 3: Your annual report, page 12, 1933, gives a summary of expenditures under different accounts; are these accounts comparable in the two roads?

Answer: The known large differences are stated in the qualifications to the answer to question 2.

Question 4: If the answer to No. 2 is in the affirmative, please state in which account the increase took place (on basis of accounts, page 12).

Answer: The relative proportions of the total expenditures for each of the general groups of expenses of the two properties for the years 1923-33 inclusive with the same qualifications previously mentioned are as follows:—

—	Maintenance of Way and Structures		Maintenance of Equipment		Traffic		Transportation		Miscellaneous		General		Total Expenses	
	C.N.	C.P.	C.N.	C.P.	C.N.	C.P.	C.N.	C.P.	C.N.	C.P.	C.N.	C.P.	C.N.	C.P.
1923.....	58.6	41.4	60.1	39.9	41.8	58.2	61.1	38.9	47.9	52.1	68.4	31.6	59.8	40.2
1924.....	61.1	38.9	59.1	40.9	45.5	54.5	61.3	38.7	49.9	50.1	68.1	31.9	60.2	39.8
1925.....	62.2	37.8	58.9	41.1	44.6	55.4	61.1	38.9	47.8	52.2	67.1	32.9	60.1	39.9
1926.....	61.5	38.5	57.3	42.7	43.3	56.7	60.7	39.3	47.5	52.5	67.9	32.1	59.4	40.6
1927.....	61.5	38.5	55.7	44.3	43.5	56.5	60.6	39.4	49.8	50.2	67.3	32.7	59.0	41.0
1928.....	59.9	40.1	54.9	45.1	44.6	55.4	60.2	39.8	49.4	50.6	67.3	32.7	58.4	41.6
1929.....	61.2	38.8	57.7	42.3	45.7	54.3	60.9	39.1	48.3	51.7	67.6	32.4	59.6	40.4
1930.....	63.6	36.4	61.3	38.7	45.8	54.2	60.9	39.1	49.9	50.1	69.5	30.5	60.9	39.1
1931.....	65.3	34.7	68.1	31.9	43.0	57.0	61.5	38.5	47.7	52.3	69.8	30.2	62.8	37.2
1932.....	60.4	39.6	65.0	35.0	43.5	56.6	60.7	39.3	44.5	55.5	71.2	28.8	60.9	39.1
1933.....	63.3	36.7	63.9	36.1	42.8	57.2	61.0	39.0	48.9	51.1	71.7	28.3	61.5	38.5

Question 5: I have the following statement of the equipment ratios of the C.N.R. and C.P.R.

*Equipment Ratio**
(Ratio to Gross Revenues)

Year	C.N.R.	C.P.R.
1923..	21.05	17.79
1924..	20.62	18.15
1925..	19.93	18.21
1926..	19.08	18.67
1927..	18.87	19.57
1928..	17.92	18.97
1929..	19.34	18.90
1930..	19.84	16.68
1931..	21.91	14.11
1932..	19.77	14.06

*Canadian Lines only. C.N.R. including Eastern Lines.

These figures are fairly comparable from 1924 to 1929 but differ sharply after that date. Why?

Answer: The general statistical explanation is contained in the answers to questions 1, 2 and 4. It should be pointed out, however, that the ratios quoted in the question are subject to adjustment from year to year due to changes in accounting methods in the case of the C.N.R. and to the fact that the C.P.R. figures from 1923-1931 are for the C.P. Railway proper, excluding its Canadian rail subsidiaries. See also general remarks.

Question 6: A newspaper article lately made this claim: "General expenses on the C.N.R. on a mileage basis are double the C.P.R. Does this difference exist—if so, why?"

Answer: General expenses expressed in dollars per mile of road operated on the Canadian National and Canadian Pacific Systems as defined in the answer to question 1 for the years 1923-33 inclusive are as follows:—

Year	C.N.R.	C.P.R.
1923..	\$372	\$254
1924..	354	245
1925..	331	241
1926..	346	239
1927..	361	253
1928..	366	256
1929..	368	252
1930..	392	246
1931..	380	233
1932..	343	193
1933..	319	175

Question: Are the accounts of general expenses on a comparable basis on the two roads?

Answer: No.

Question: Are pensions treated in the same way in this account in both roads?

Answer: No. In the case of the Canadian National, pensions are charged to general expenses; in the case of the Canadian Pacific prior to 1934 pensions were a deduction from surplus.

Question: Is there any difference in accounting methods *re* taxes?

Answer: So far as is known to the Canadian National there is no difference in the accounting method regarding taxes in the reports made by the respective systems to the Dominion Bureau of Statistics. In the Canadian Pacific annual report to the shareholders, railway tax accruals are shown as part of working expenses.

General Remarks:—

A comparison of the operating ratios of two railway systems implies that the operating and traffic characteristics of the two systems are comparable. The known differences in accounting methods which would affect the operating ratio are as follows:—

- (a) The Canadian National includes gross express and telegraph revenue in revenue account; the Canadian Pacific excludes commercial telegraph revenue and carries "express privileges" in revenue account.
- (b) The Canadian National includes all telegraph expenses and express department expenses in operating expenses; the Canadian Pacific excludes a portion of telegraph expenses and all express department expenses from expense accounts.
- (c) The Canadian National includes colonization and agriculture department expenses as an expense item; the Canadian Pacific does not.
- (d) The Canadian National includes pension costs as an operating expense; the Canadian Pacific prior to 1934 did not.

The net effect on the operating ratio of these differences in accounting methods, varies from year to year. For 1933 these items explain 1.33 points in the spread of the operating ratios of the two systems.

Other special considerations may affect particular years, thus the Canadian National expenses in 1932 were lessened by the receipt of 2,000,000 ties

valued at approximately \$1,100,000 which were supplied by the Dominion Government as unemployment relief. The Canadian Pacific, according to their annual reports, in the years 1931 and 1932 charged certain unemployment relief works to the amount of \$6,327,616 to suspense and later to profit and loss. Also in 1931 the Canadian Pacific Directors' report indicates that the operating expenses did not include the normal proportion of equipment retirements; the Canadian National retirements actually increased each year since 1930. A changed policy of accounting on both systems with regard to treated ties also affects the operating ratio; since 1932 the cost of tie treatment has been charged to capital; prior to that date it was charged to operation.

Traffic considerations which affect the operating ratio relate to—

- (1) the average revenue per ton mile.
- (2) the type of commodity as affecting the average carload.
- (3) the average haul.

There are important differences between the two systems in all these items, except the average revenue per ton mile. Other things being equal, these differences explain from 1 to 2 points of the spread in operating ratios.

Traffic density per mile of road had a profound influence on the operating ratio, other things being equal. The expenses of operating a railway are divisible into two groups—one group of expenses is in the nature of overhead consisting of the portion of the expense which is necessary to keep the railway in condition and equipped to carry traffic. The other group of expenses consists of the actual expense involved in handling the traffic. Since only a portion of the expenses are increased with increasing traffic, the unit cost of earning a dollar of gross revenue (that is the operating ratio) decreases with increasing traffic. The Canadian Pacific traffic averages 15 per cent more per road mile than the Canadian National and this fact would normally explain from 3 to 6 points of the spread in the operating ratios.

The explanation of the balance of the spread between the operating ratios in the last few years may be found in the relative cuts in maintenance expenditures as shown in the answer to question 4. In this connection it might be pointed out that the track mileage of the C.N. is 32,124 and of the C.P.R. 23,380. The excess of C.N. track mileage over the C.P. is 37.4 per cent, whereas the excess of C.N. gross revenue over C.P. gross revenue is 30.3 per cent.

Hon. Mr. MANION: Were there any other points you wanted to take up before we close our proceedings?

Sir EUGENE Fiset: Carry on with the report.

Mr. HANBURY: I would rather not approve of the report; leave it as it is, unconsidered.

Hon. Mr. MANION: I rather think we should do something; the report is the report of the management.

Sir EUGENE Fiset: As a matter of fact, in the past we always approved of the report. That is the object of the meeting of the committee. We might as well accept the report as it stands.

Mr. HANBURY: I will accept that motion. Before you adjourn, as one who has opposed the Canadian National-Canadian Pacific Bill and who is still not very pleased with it, it does give me great pleasure to be able to say a word in support of the chairman of the trustees and of the trustees he has associated with himself on the board. I do feel that the government have succeeded in bringing to the operation of this railway probably the best brains and the highest type of Canadian citizenship we have, and I wish to be on record as being willing to do all I can to help them in every way I can to make the National Railways the success we all hope it will eventually be.

Mr. GOBEL: I desire to second that motion, Mr. Chairman.

Mr. HANBURY: I have made some suggestions which I was hoping to have incorporated in the report.

Hon. Mr. MANION: I have them before me now. These were handed to me by Mr. Hanbury:—

The committee recommends that until the government is relieved of all liability under the guarantee given, the accounts and estimates of the Canadian Pacific Railway and their subsidiary companies be submitted to a committee of the House for revision annually.

May I say a word about this. I have thought over this and I have looked up the reference, and as far as this committee is concerned it could not deal with this matter, because our reference—and this is drawn up by the clerk of the House—is specific; it is to the select standing committee of the House for the present session: “A select standing committee on railways and shipping owned, operated and controlled by the government.” That is the point I am making. We have no power to deal with the Canadian Pacific in this committee unless the House made a special reference of it to us.

Mr. HANBURY: I think if you will read what I have submitted you will see that I am not suggesting that this committee should do it; I am suggesting that a committee should be set up by the House to do it in the future.

Hon. Mr. MANION: Mr. Chaplin can deal with that. I am bringing out this point only.

Mr. POWER: Mr. Hanbury asks that we recommend to the House that a committee be set up to go into C.P.R. expenditures, and we can do that; we can always recommend something to the House.

Hon. Mr. MANION: If it is the voice of the committee to recommend that.

The CHAIRMAN: I would not want to put that into a report without submitting it to the committee for its approval and having it discussed.

Mr. HANBURY: That is the reason I suggested that perhaps a further meeting of the committee might be necessary in order to consider your report.

Hon. Mr. MANION: Might there not be a sub-committee formed of this committee to draw up a report instead of calling a whole committee?

Sir EUGENE Fiset: Why not follow the procedure of the past? The procedure of the past was that the chairman usually prepared the report after we had finished and submitted it to the committee for final consideration.

The CHAIRMAN: We have always submitted the report for the approval of members of the committee; we never sent a report to the House without having the approval of the committee.

Sir EUGENE Fiset: That is what I have suggested. When you have dealt with the final report and sent us a copy have final meeting and submit the report.

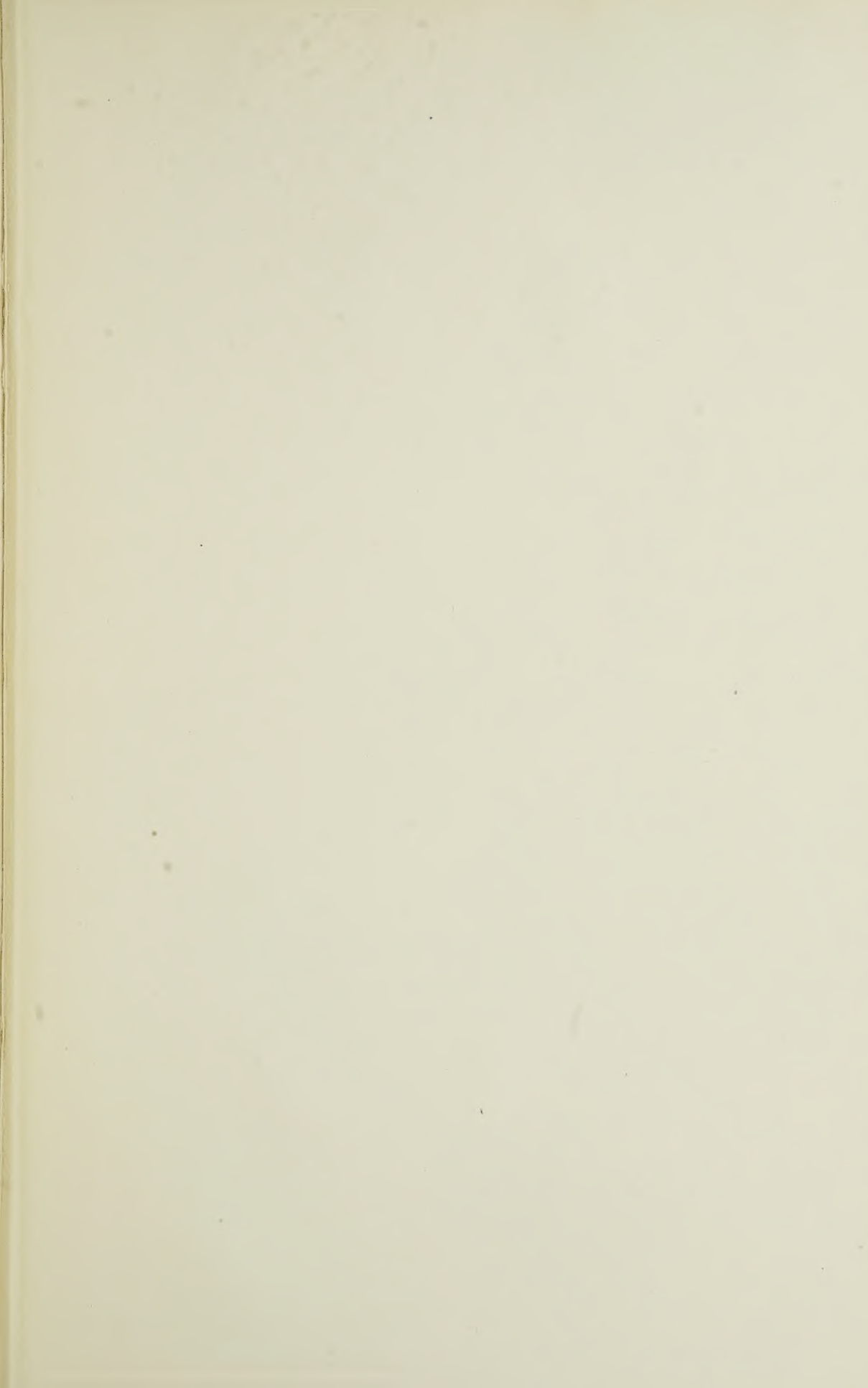
Hon. Mr. MANION: That makes it easier.

Mr. POWER: That makes it easier for everybody but the chairman.

Hon. Mr. MANION: Mr. Fullerton asks me if he and his colleague are released by the committee, and I have told them yes.

The CHAIRMAN: Very well, gentlemen, we will adjourn.

The committee adjourned.





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